State of Idaho

General Fund Revenue Book

- Economic Forecast
- Revenue Projections
- Tax Expenditure Budget

Fiscal Year 2000 July 1, 1999 - June 30, 2000

State of Idaho Dirk Kempthorne, Governor

General Fund Revenue Book

FY 2000 Executive Budget January 1999

- Economic Forecast
- Revenue Projections
- Tax Structure

prepared by the Division of Financial Management



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INTRODUCTION

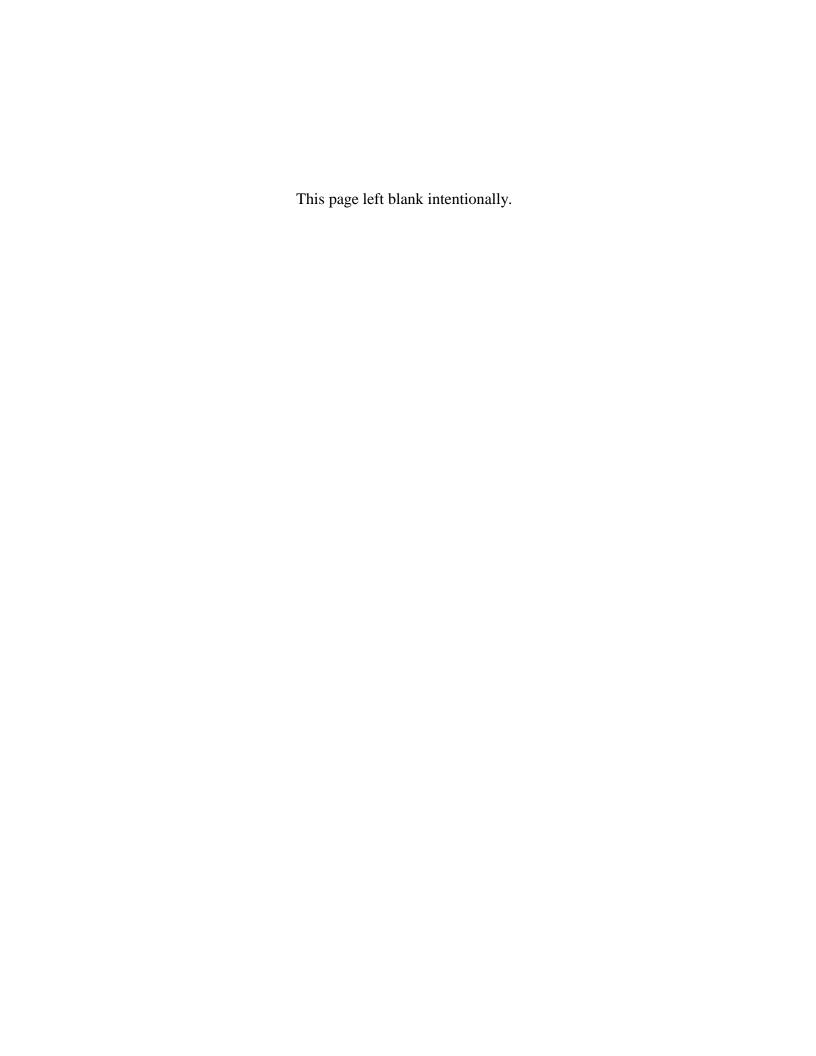
The basis for most of the revenue projections made in this book is the *Idaho Economic Forecast* published by the Division of Financial Management (DFM), which in turn is based on the Idaho Economic Model (IEM)¹. Each major revenue category (personal income tax, sales tax, and corporate income tax) is specified as a function of relevant explanatory variables.

Although the revenue model is specified in precise quantitative terms, two levels of uncertainty exist. The first of these uncertainties is associated with the statistical process itself and hence may be reduced to probabilities and confidence intervals. The other is related to the uncertainties associated with unknown future events. Weather effects on agriculture are a classic example. A forecast of agricultural production must either assume average weather or project some specific future weather condition. The forecast is contingent upon that assumed weather pattern actually occurring. Some other weather pattern will result in a different outcome for both farmers and the myriad of entities dependent upon the fortunes of farmers.

The contingent nature of an agricultural model demonstrates the uncertainty associated with any model containing exogenous variables. Both sources of forecast error are present in any model that is dependent on explanatory variables. Since most of Idaho's revenue sectors depend heavily on Idaho income levels, the revenue forecast is particularly sensitive to those factors that influence Idaho's income.

The major foundation of the IEM is economic base theory. Idaho's economy can be divided into "basic" and "domestic" activities (also known as "export" and "residentiary"). The basic activities, such as agriculture, forestry, mining, manufacturing, tourism, and exported services are characterized by a major dependence on external forces; while domestic activities like construction, trade, local services, and public utilities are characterized by a dependence on influences from within the State. The idea is that basic activities form the foundation of Idaho's level of economic activity, while domestic activities essentially follow from basic activities. While not a perfect theory, economic base theory does serve as a useful means of identifying the driving forces behind Idaho's overall level of economic activity.

¹ The IEM is in turn based on the Standard and Poor's DRI (DRI) Quarterly Model of the U.S. Economy. Descriptions of both are available in the current *Idaho Economic Forecast*, Division of Financial Management.

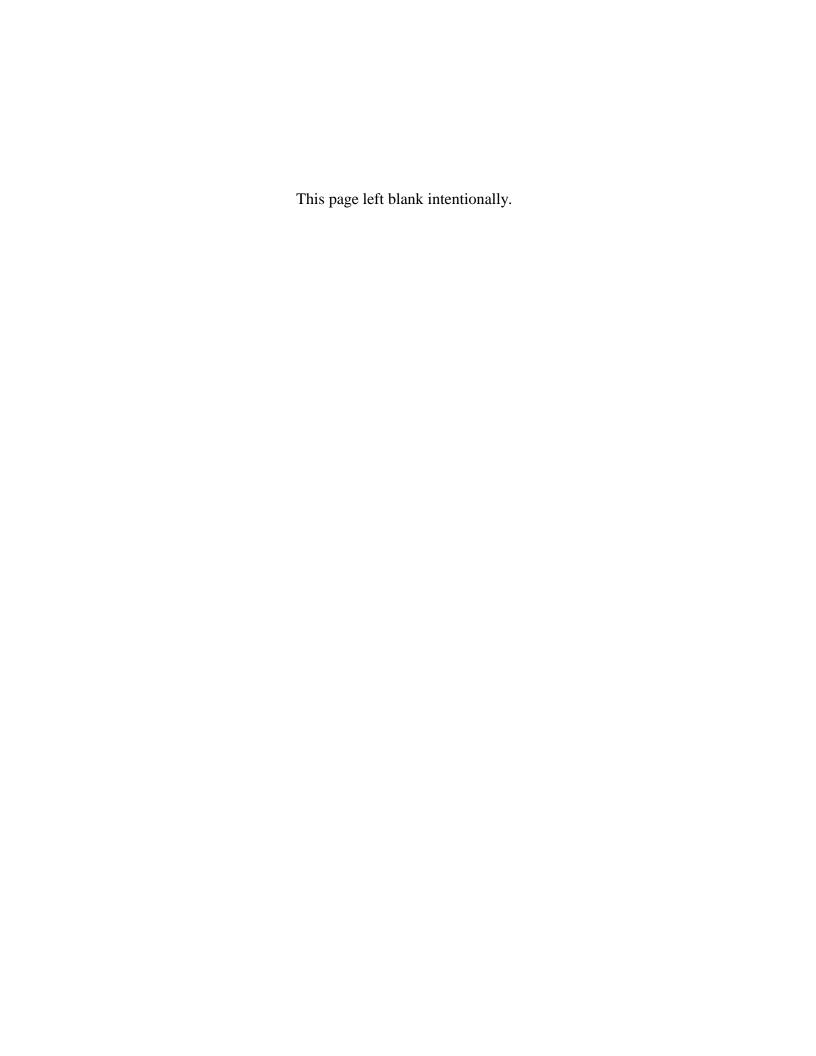


Idaho Economic Forecast

The following tables and text are taken from the

January 1999 *Idaho Economic Forecast*a publication produced by the

Division of Financial Management.



EXECUTIVE SUMMARY

The outlook for Idaho employment over the next few years has improved since the October 1998 daho Economic Forecast was published. The biggest change is in 1998. Previously, it was anticipated that nonfarm employment in the Gem State would rise 2.2%. In the current forecast, this same measure is expected to increase 2.9%. All of this improvement reflects the stronger-than-expected job picture in the second and third quarters of 1998. New data show that employment was more than 4,000 higher than previously estimated in each of these quarters. The higher employment numbers in 1998 will not have much of an impact beyond raising the starting point for the current forecast. As was mentioned above, the nonfarm employment growth rate in 1998 has been raised from 2.2% to 2.9%. However, employment expands at roughly the same rate in the remaining years of this forecast as it did in the previous forecast. Specifically, it is forecast to rise 1.6% in 1999, 2.2% in 2000, 2.1% in 2001, and 2.5% in 2002. In the previous forecast it was expected to rise 1.6% in 1999, 2.1% in both 2000 and in 2001, and 2.6% in 2002. Idaho personal income displays a similar pattern. Idaho nominal personal income grows 4.4% in 1999, 5.1% in 2000, 5.2% in 2001, and 5.6% in 2002. This is about the same as in the previous forecast. Idaho real personal income is forecast to rise 2.4% in 1999, 2.7% in 2000, 2.6% in 2001, and 2.9% in 2002.

This is not surprising because the national outlook has not changed dramatically. After a scare last fall, things appear to have changed in the economy's favor. Although it appears the "Goldilocks economy" has escaped the bears, it is still not out of the woods. A couple of traps that could stall or reverse the economy's progress remain. The greatest danger is internal. The U.S. economy's recent success is in no small part due to the strong consumer confidence that has fueled spending. However, as the first few years after the 1990-91 recession have taught us, consumers can be fickle. One troublesome development in the extremely low savings rate in the U.S. over the past year. Should consumer confidence suddenly go south, it could lead the economy into a recession. A less serious problem, but a problem nonetheless, is Japan. While most of the other Asian countries that faced crises have seen their economies stabilize recently, Japan's economy remains a basket case. While steps have been taken to shore up the banking system of Asia's economic engine, only time will tell if these moves will successfully restart Japan's economy. The current forecast assumes that the "Goldilocks economy" will avoid most traps. Therefore, no recession is anticipated over the forecast period.

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY JANUARY 1999

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP (BILLIONS)										
Current \$	6,558	6,947	7,270	7,662	8,111	8,489	8,775	9,158	9,547	10,014
% Ch	5.0%	5.9%	4.6%	5.4%	5.9%	4.7%	3.4%	4.4%	4.2%	4.9%
1992 Chain-Weighted	6,390	6,611	6,762	6,995	7,270	7,531	7,661	7,837	7,999	8,200
% Ch	2.3%	3.5%	2.3%	3.4%	3.9%	3.6%	1.7%	2.3%	2.1%	2.5%
PERSONAL INCOME - CURR \$	40.475		00.074	00.400	0.4.004	05.000	07.074	00.400	00.040	04.004
Idaho (Millions)	19,475	20,628	22,071	23,430	24,681	25,932	27,074	28,460	29,943	31,624
% Ch	10.0%	5.9%	7.0%	6.2%	5.3%	5.1%	4.4%	5.1%	5.2%	5.6%
Idaho Nonfarm (Millions) % Ch	18,339	19,979 <i>8.9%</i>	21,371 <i>7.0%</i>	22,647	23,956 <i>5.8%</i>	25,250	26,351 <i>4.4%</i>	27,698	29,160	30,821 <i>5.7%</i>
U.S. (Billions)	8.6% 5.491		6,072	6.0%	5.6% 6,784	5.4%		5.1% 7.749	5.3%	
% Ch	5,481 <i>4.</i> 3%	5,758 <i>5</i> .1%	5.5%	6,425 <i>5.8%</i>	5.6%	7,119 <i>4</i> .9%	7,426 <i>4</i> .3%	7,748 <i>4</i> .3%	8,088 <i>4.4%</i>	8,470 <i>4.7%</i>
76 GII	4.3%	3.1%	5.5%	5.6%	5.0%	4.9%	4.3%	4.5%	4.470	4.7 %
PERSONAL INCOME - 1992 \$										
Idaho (Millions)	18,967	19,615	20,518	21,347	22,073	22,996	23,549	24,175	24,808	25,539
% Ch	7.2%	3.4%	4.6%	4.0%	3.4%	4.2%	2.4%	2.7%	2.6%	2.9%
Idaho Nonfarm (Millions)	17,861	18,998	19,867	20,634	21,425	22,392	22,920	23,528	24,160	24,890
% Ch	5.7%	6.4%	4.6%	3.9%	3.8%	4.5%	2.4%	2.7%	2.7%	3.0%
U.S. (Billions)	5,339	5,476	5,645	5,854	6,068	6,313	6,459	6,582	6,702	6,841
% Ch	1.6%	2.6%	3.1%	3.7%	3.6%	4.1%	2.3%	1.9%	1.8%	2.1%
HOUSING STARTS										
Idaho	11,456	12,768	9,361	9,216	8,868	9,738	9,392	9,745	9,845	10,028
% Ch	19.5%	11.5%	-26.7%	-1.6%	-3.8%	9.8%	-3.6%	3.8%	1.0%	1.9%
U.S. (Millions)	1.292	1.446	1.361	1.470	1.478	1.592	1.502	1.475	1.469	1.496
% Ch	7.5%	12.0%	-5.9%	8.0%	0.6%	7.7%	-5.6%	-1.8%	-0.4%	1.9%
TOTAL NONFARM EMPLOYME	NIT									
Idaho (Thousands)	436.7	461.2	477.4	492.6	508.8	523.6	532.2	543.7	555.4	569.0
% Ch	4.8%	5.6%	3.5%	3.2%	3.3%	2.9%	1.6%	2.2%	2.1%	2.5%
U.S. (Millions)	110.7	114.1	117.2	119.6	122.7	125.8	127.4	128.9	130.5	132.2
% Ch	1.9%	3.1%	2.7%	2.1%	2.6%	2.5%	1.3%	1.2%	1.2%	1.3%
FINANCIAL MARKETS										
Federal Funds Rate	3.0%	4.2%	5.8%	5.3%	5.5%	5.4%	4.4%	4.1%	4.5%	4.5%
Bank Prime Rate	6.0%	7.1%	8.8%	8.3%	8.4%	8.4%	7.4%	7.1%	7.5%	7.5%
Mort Rate, New Homes	7.2%	7.5%	7.9%	7.8%	7.7%	7.1%	6.7%	6.3%	6.5%	6.6%
INFLATION										
GDP Price Deflator	2.6%	2.4%	2.3%	1.9%	1.9%	1.0%	1.6%	2.0%	2.1%	2.3%
Personal Cons Deflator	2.7%	2.4%	2.3%	2.0%	1.9%	0.9%	2.0%	2.4%	2.5%	2.6%
Consumer Price Index	3.0%	2.6%	2.8%	2.9%	2.3%	1.6%	2.4%	2.7%	2.8%	2.8%

National Variables Forecast by Standard and Poor's DRI Forecast Begins the THIRD Quarter of 1998

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY JANUARY 1999

		1	998			199	99			200	00	0		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
ann (nu 1 10110)														
GDP (BILLIONS) Current \$	8,384	8,441	8,527	8,605	8,665	8,729	8,818	8,887	9,011	9,114	9,212	9,296		
% Ch	6.4%	2.7%	4.1%	3.7%	2.9%	2.9%	4.2%	3.2%	5.7%	9,114 4.7%	9,212 4.4%	3.7%		
1992 Chain-Weighted	7,465	7,499	7,559	7,601	7,619	7,639	7,681	7,705	7,768	7,819	7,865	7,897		
% Ch	5.5%	1.8%	3.3%	2.2%	0.9%	1.1%	2.2%	1.3%	3.3%	2.7%	2.4%	1.6%		
PERSONAL INCOME - CURR \$														
Idaho (Millions)	25,469	25,847	26,054	26,358	26,626	26,906	27,231	27,533	27,917	28,306	28,641	28,975		
% Ch Idaho Nonfarm (Millions)	7.2% 24,792	6.1%	3.2%	4.7%	4.1%	4.3%	4.9%	4.5%	5.7%	5.7%	4.8%	4.8%		
% Ch	8.2%	25,144 5.8%	25,397 <i>4</i> .1%	25,667 <i>4.</i> 3%	25,940 <i>4.3%</i>	26,202 <i>4.</i> 1%	26,489 <i>4.5%</i>	26,773 <i>4.4%</i>	27,163 <i>6.0%</i>	27,546 <i>5.8%</i>	27,875 <i>4.</i> 9%	28,206 <i>4.8%</i>		
U.S. (Billions)	7,004	7,082	7,156	7,235	7,316	7,391	7,466	7,530	7,624	7,709	7,790	7,867		
% Ch	5.9%	4.5%	4.2%	4.5%	4.5%	4.2%	4.2%	3.4%	5.1%	4.5%	4.2%	4.0%		
PERSONAL INCOME - 1992 \$														
Idaho (Millions)	22,680	22,965	23,093	23,247	23,354	23,468	23,624	23,750	23.932	24,121	24,257	24,391		
% Ch	7.2%	5.1%	2.3%	2.7%	1.9%	2.0%	2.7%	2.1%	3.1%	3.2%	2.3%	2.2%		
Idaho Nonfarm (Millions)	22,077	22,341	22,511	22,638	22,753	22,853	22,980	23,094	23,285	23,473	23,609	23,743		
% Ch	8.2%	4.9%	3.1%	2.3%	2.1%	1.8%	2.2%	2.0%	3.4%	3.3%	2.3%	2.3%		
U.S. (Billions)	6,237	6,293	6,342	6,381	6,417	6,447	6,478	6,495	6,536	6,570	6,598	6,623		
% Ch	5.9%	3.6%	3.2%	2.5%	2.3%	1.8%	1.9%	1.1%	2.5%	2.1%	1.7%	1.5%		
HOUGING STARTS														
HOUSING STARTS Idaho	10,886	9,762	9,215	9.090	9,202	9,324	9,457	9,585	9,670	9,729	9,777	9,803		
% Ch	68.4%	-35.3%	-20.6%	-5.3%	5.0%	5.4%	5.8%	5.5%	3.6%	2.4%	2.0%	1.1%		
U.S. (Millions)	1.582	1.568	1.632	1.584	1.538	1.500	1.491	1.479	1.466	1.477	1.481	1.477		
% Ch	14.1%	-3.5%	17.4%	-11.2%	-11.1%	-9.7%	-2.3%	-3.1%	-3.5%	2.9%	1.2%	-1.1%		
TOTAL NONFARM EMPLOYME	NT													
Idaho (Thousands)	519.0	523.1	524.9	527.4	529.1	530.9	533.2	535.6	538.6	542.9	545.4	547.9		
% Ch	3.7%	3.2%	1.4%	1.9%	1.3%	1.4%	1.7%	1.9%	2.3%	3.2%	1.8%	1.8%		
U.S. (Millions)	124.8	125.5	126.1	126.6	126.9	127.2	127.5	127.8	128.2	128.7	129.2	129.6		
% Ch	2.8%	2.3%	2.0%	1.6%	0.9%	1.0%	0.9%	0.9%	1.3%	1.6%	1.4%	1.3%		
FINANCIAL MARKETO														
FINANCIAL MARKETS Federal Funds Rate	5 E0/	5 F0/	5.5%	5 10/	4.8%	1 50/	4.2%	1 00/	4.0%	4.0%	4.0%	4.2%		
Bank Prime Rate	5.5% 8.5%	5.5% 8.5%	5.5% 8.5%	5.1% 8.1%	4.8% 7.7%	4.5% 7.5%	4.2% 7.2%	4.0% 7.0%	4.0% 7.0%	4.0% 7.0%	4.0% 7.0%	4.2% 7.2%		
Mort Rate, New Homes	7.2%	7.2%	7.1%	7.1%	6.9%	6.7%	6.6%	6.5%	6.4%	6.3%	6.3%	6.3%		
	/0		,	,0	3.070	J., 70	2.070	3.370	3.170	0.070	2.070	2.070		
INFLATION														
GDP Price Deflator	0.9%	0.9%	0.8%	1.4%	1.9%	1.9%	1.9%	1.9%	2.3%	2.0%	2.0%	2.0%		
Personal Cons Deflator	0.0%	0.9%	1.0%	2.0%	2.2%	2.3%	2.2%	2.3%	2.5%	2.4%	2.5%	2.5%		
Consumer Price Index	0.5%	2.0%	1.8%	2.6%	2.6%	2.5%	2.5%	2.7%	2.8%	2.7%	2.7%	2.7%		

National Variables Forecast by Standard and Poor's DRI Forecast Begins the THIRD Quarter of 1998

NATIONAL FORECAST DESCRIPTION The Forecast Period is the Third Quarter of 1998 to the Fourth Quarter of 2002

After a scare last fall, things appear to have changed in the economy's favor. A review of several indicators shows there are positive signs aplenty. First, real GDP, the most closely watched measure of the nation's overall economic health, grew at a healthy 3.9% annual pace in the third quarter of 1998. It is thought to have advanced by 3.0% in the last quarter of that year. Second, employment has remained strong. The unemployment rate in the third quarter of last year was just 4.5%, which was still about one percentage point below full employment. The number of nonfarm jobs grew at a 2.0% annual rate during this same quarter. Third, the still-strong employment picture has kept consumer confidence high. Fourth, consumer confidence also got a boost from the strong stock market recovery. In fact, last summer's stock market correction proved to be one of history's most fleeting. The S&P 500 index regained its previous peak in just four months. In contrast, it took the market nearly two years to regain its peak after the October 1987 collapse. Fifth, the high level of consumer sentiment and respectable personal income growth has kept consumer spending afloat, and this has kept the economy humming. Sixth, for the first time in nearly 30 years the federal fiscal year ended with a surplus instead of a deficit.

Although it appears that the "Goldilocks economy" has escaped the bears, it is still not out of the woods. The U.S. economy's recent success is in no small part due to the strong consumer confidence that has fueled spending. Thus far, consumer confidence has shown incredible resilience against several attacks, such as last summer's stock market meltdown. However, as the first few years after the 1990-91 recession have taught us, consumers can be fickle. This is no minor detail considering consumer spending accounts for about two-thirds of the nation's economy. Should consumer confidence suddenly go south, it could lead the economy into a recession. (A confidence crisis resulting in a recession is explored in the *Alternative Forecasts* section of this publication.) A less serious problem, but a problem nonetheless, is Japan. While most of the other Asian countries that faced crises have seen their economies stabilize recently, Japan's economy remains a basket case. While steps have been taken to shore up the banking system of Asia's economic engine, only time will tell if these moves will successfully restart Japan's economy. Any meaningful Asian recovery must include Japan. The fear is that a continued Japanese malaise may cause other economic problems that will eventually spread to our shores.

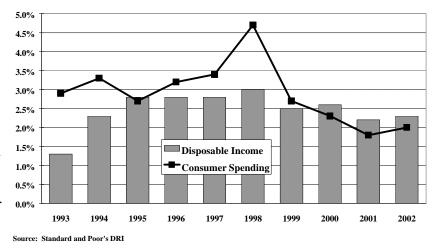
The current forecast assumes the "Goldilocks economy" will avoid most traps. Therefore, no recession is anticipated over the forecast period. That is not to say the next few years will be a breeze. The U.S. economy will have its closest brush with a recession in 1999. Continuing problems in Asia will find their way to the U.S. Asian countries will look to the U.S. in an effort to export their way out of their current economic slumps. While U.S. consumers will benefit from lower import prices, the wave of imports is expected to eventually cost some Americans their jobs. This is especially noticeable in 1999, when U.S. nonfarm growth drops to around one percent and the unemployment rate begins its gradual rise. This will cause consumer confidence to decline, but this is expected to be an orderly retreat. Over this period, consumer spending will slow to about the pace of real disposable income growth. While this is lower than in recent years, it is a sustainable pace that should keep the U.S. economy moving forward.

SELECTED NATIONAL ECONOMIC INDICATORS

Consumer Spending: Real consumer spending growth should slow over the forecast period. Indeed, some of this slowing has already taken place. During the first half of 1998, real consumer spending advanced at a 6.1% annual rate. Preliminary data for the third quarter show that this measure slowed

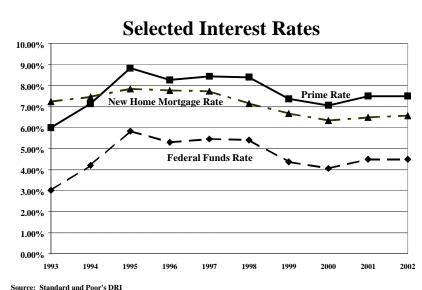
markedly to about 4.0%. Real consumer spending is forecast to slow further to 3.0% by the last quarter of 1998. Several of the factors contributing to this slowing will continue to limit future real consumer spending growth. First, consumer confidence has slipped. As measured by the University of Michigan's Index of Consumer October Sentiment, 1998 consumer confidence had retreated 13 points from its all-time high in February 1998. Confidence is expected to decline slowly over the forecast period the unemployment inches rate upward. Indeed, in recent surveys

Real Spending & Real Income Growth



consumers have remained generally upbeat about current conditions but have expressed more anxiety about a softening job market down the road. Second, despite the recent slide in consumer confidence, consumers have been willing to take on more debt. After remaining stable for two years, nonmortgage consumer credit measured relative to disposable income rose steadily last year, hitting a record 21.2% in September 1998. Near-record low interest rates no doubt induced consumers to take on more debt. However, it is unlikely it can remain at that level, especially given the outlook of falling consumer confidence. Third, consumers will need to rebuild dismally low savings. In 1998 the savings rate is expected to average under 0.5%. In September of that year the savings rate was negative. Part of the explanation for this weakness is the steady ascent of the stock market. With household net worth at an alltime high, consumers apparently feel the stock market is doing their saving for them, allowing them to spend more freely out of current income. However, households' net worth gains are expected to grow slower in the future, as stock market gains are projected slow from double-digit rates to single-digit rates. Given these factors, it appears that real consumer spending will grow about as fast as real disposable income. The good news is that income growth should be relatively healthySpecifically, national real disposable income should rise 3.0% in 1998, 2.5% in 1999, 2.6% in 2000, 2.2% in 2001, and 2.3% in 2002. Real consumer spending should rise 4.7% in 1998, 2.7% in 1999, 2.3% in 2000, 1.8% in 2001, and 2.0% in 2002.

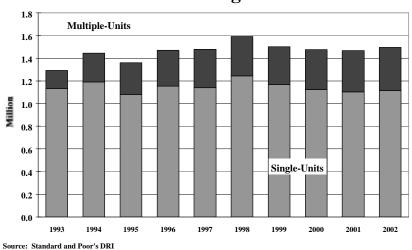
Financial: The Federal Reserve loosened aggressively in the fall of 1998 in an effort to keep the current expansion moving ahead. Over the six-week period from the end of September 1998 to mid-November 1998, the nation's central bank dropped bellwether federal funds rate target from 5.5% to 4.75%. The discount rate was dropped from 5.0% to 4.5%. More cuts are likely. With inflation stable, the Federal Reserve has been afforded more wiggle room to lower rates further



and help to insure the economy continues to grow. The stock market seems to be backing away from its fears of a recession, but growth is expected to be very low in early 1999. In this forecast it is assumed the Federal Reserve will ease further. However, this seems unlikely given the Federal Reserve did not raise rates in December 1998. It appears that the nation's central bank is content that the economy has dodged a downturn. Thus, it is more willing to take a wait-and-see policy. However, the economy will be vulnerable to a recession this year, so another round of loosening by the Federal Reserve in the near future is not entirely out of the question.

Housing: The nation's housing industry should remain one of the economy's strongest performers over the forecast period. Housing starts rose to 1.64 million units in the third quarter of 1998, its strongest quarterly showing since 1987. Housing sales were also strong. In the third quarter of 1998, new home sales (842,000) had their third strongest quarter ever. In addition, existing home sales in that same quarter were the second highest on record. This strong showing is primarily due to the strong job market and the increasing affordability of homes.

U.S. Housing Starts

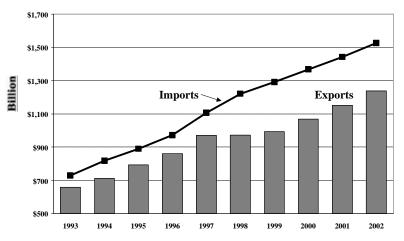


The strong job market has bolstered consumer confidence, which has led more Americans to take the plunge and purchase homes. Thanks to low interest rates and steady income growth, the affordability of owning a home has increased tremendously over the last two decades. To put this in perspective, in the early 1980s the after-tax cost of owning a home was roughly half of household disposable income. By 1998, this was slashed almost in half, so that housing cost was approximately a fourth of household disposable income. This has helped the home ownership rate rise to record levels. The U.S. Census Bureau reported that the third quarter 1998 home ownership rate was nearly 67.0%, its highest level since it started collecting this information in 1956. Home ownership rates had been stagnant for nearly two decades, at around 62-64% before 1994, when they started to rise. The falling mortgage interest rates that have been a boon to housing affordability have also benefited existing homeowners. In mid-October 1998, the Mortgage Bankers Association reported that more than 60% of the new loan applications were for refinancing, which was up from 40% a year earlier. This should lower consumers' home payments and free up cash that can be used for other things, such as consumer spending. The nation's housing industry also benefited from the overall strength of the economy and the stock market. As these cool from their recent robust paces, so will the housing industry. However, it should be stressed that the projected decline in housing starts will be gradual. Specifically, U.S. housing starts are expected to go from 1.59 million in 1998 to 1.50 million in 1999, 1.48 million in 2000, 1.47 million in 2001, and 1.50 million in 2002.

International: The Asian crisis dominated much of the economic news last year. This forecast notes there is some good news to report, but some serious problems still need to be addressed. First, the good news. The Asian economies are beginning to show signs of bottoming out. Exchange rates, with the exception of the Indonesian rupiah, have been stable since the spring of 1998. Stock markets in most of the countries affected by the currency crises are beginning to rebound. The flight of capital from Asia is

at least moderating. Despite this good news, Japan remains in economic doldrums. Asia's largest economy is currently in its longest down cycle since the great depression. This engine of Asian economic growth is not just stalled, but in need of an overhaul. Until the Japanese banking system is fixed, it is not likely that it will experience a sustained recovery. Even Japan's most recent steps to get its economic house in order do not go far enough. The new bankbailout bill makes a first step toward fixing the financial system, Source: Standard & Poor's DRI but it is too small to solve the

U.S. Imports and Exports



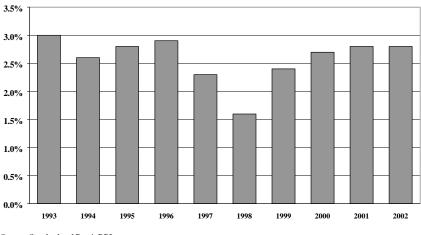
problem and still avoids tackling the disposal of bad loans and other assets. There is good reason for Japanese politicians to put off the economic day of reckoning as long as possible: the cure will be painful. The Japanese problem is far greater than the U.S. savings and loan crises. At the worst of the U.S. savings and loan problems, nonperforming loans were about 3.0% of U.S. GDP. In comparison, it has been estimated that nonperforming bank loans are 30.0% of Japanese GDP. Unfortunately, the story gets worse. On top of these loans are other nonperforming loans that could double this ratio. The Japanese recession is therefore likely to persist into 2000, and even longer if the Japanese Diet fails to make the needed reforms.

Government: The federal budget is expected to remain in surplus during the forecast period. The federal fiscal year ended with a \$70 billion surplus, the first since 1969. This was a pleasant surprise. President Clinton's original budget, which was submitted in February 1997, projected a \$10 billion deficit for that year. By the time fiscal year 1998 began, the projected deficit had been raised to nearly \$60 billion. The nearly \$130-billion swing between the start and end of the fiscal year resulted from a 5.5% underestimate of revenues and a 2.3% overestimate of outlays. Overall, federal receipts climbed 9.0% in fiscal year 1998, while federal outlays rose just 3.0%. The strong receipts were due in large part to the continued strength of the job and stock markets, which helped personal tax collections swell 12.4% in fiscal year 1998. The major surprise on the outlay side was Medicare spending, which increased just 1.5% after a decade of relentless 10% annual increases. It is assumed that much of the future federal budget surpluses will be used to pay down debt. However, some of the surpluses will be used to finance other projects. For example, this forecast assumes there will be some modest tax cuts before the 2000 election. It should also be pointed out that while the federal budget is projected to remain in surplus over the forecast period, there will be some slippage as economic growth slows and capital gain realizations shrink. However, the surplus does rebound in 2002. Specifically, the federal surplus (on a unified budget basis) is projected at \$63.3 billion in 1999, \$42.8 billion in 2000, \$31.0 billion in 2001, and \$63.7 billion in 2002.

Inflation: Inflation should remain mild despite an anticipated acceleration in employment costs. The Employment Cost Index for Compensation (wages, salaries, and benefits) has risen slowly in recent years, despite an ever-tightening labor market that dropped the unemployment rate below the full employment level. However, employment costs did start to heat up last year, growing 3.6% compared to 1997's 3.1%. Ordinarily this would cause consumer inflation to pick up speed. However, the opposite has occurred recently. In late 1998 it was estimated that the consumer price index had advanced just 1.6%

that year. In comparison, inflation in 1997 was significantly higher at 2.3%. The difference between the two can be traced to the energy and food components of the consumer price index. In 1997, energy prices rose 1.2%. Energy prices collapsed nearly 8.0% in 1998 due to soft world demand. For example, the price of West Texas Intermediate crude oil in October 1998 was just two-thirds of its price of the previous October. Food prices rose 2.6% in 1997, but just 2.1% in 1998. These changes in energy and food prices were able to push overall inflation

Consumer Price Inflation

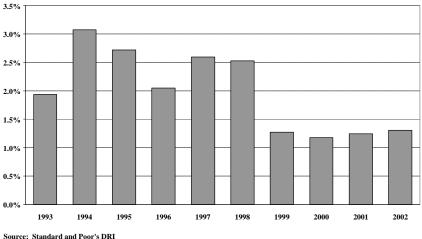


Source: Standard and Poor's DRI

below 2.0% for the first time since 1986. It should be kept in mind that both energy and food prices are notoriously volatile, and they are not expected to remain low. In fact, the current forecast calls for these prices to ramp up slowly over the forecast period. Despite this, inflation should remain below 3.0%. One of the reasons for this is because while the U.S. labor market is tight, manufacturing capacity is relatively slack. Manufacturing utilization in the U.S. is about 80% of capacity, which is safely below the 83-85% that is associated with accelerating inflation. Of course, this only relates to U.S. manufacturing. Given the slowdown in Asia, there is even more slack capacity worldwide, especially for certain types of industries. Consumer price inflation, as measured by the consumer price index for all urban consumers, is projected to be 1.6% in 1998, 2.4% in 1999, 2.7% in 2000, 2.8% in 2001, and 2.8% in 2002.

Employment: The U.S. labor market is expected to loosen over the forecast period after posting another impressive showing in 1998. Last year, the number of jobs in the U.S. rose an impressive 2.5%, virtually matching 1997's strong gain. It also marked the fifth consecutive year that the number of jobs has expanded by than 2.0%. This more job expansion has caused the U.S. civilian unemployment rate to fall to levels that a few years ago were considered unattainable. example, as recently as 1993 the civilian unemployment rate was

U.S. Nonfarm Employment Growth

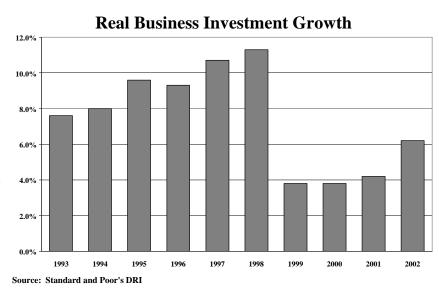


Source: Standard and Poor's DRI

6.9%, which was well above the 5.3% economists considered full employment. As the economy shook off the effects of the 1990-91 recession, the once stubbornly high unemployment rate declined steadily, so that by 1996 the economy was essentially at full employment. However, this was not employment's zenith; labor markets continued to tighten after that year. In 1997, the unemployment rate actually fell one-half percentage point below the full employment threshold. In 1998, it was almost a full percentage

point below full employment. Of course, this is not expected to continue indefinitely. Over the next few years the U.S. economic growth is forecast to slow and so is employment Nonfarm job growth in the U.S. is anticipated to slow to 1.3% in 1999, 1.2% in 2000, 1.2% in 2001, and 1.3% in 2002. The U.S. civilian unemployment rate is expected to rise gradually over this same period, going from a low of 4.5% in 1998 to 5.4% in 2002. Keep in mind that although labor markets are expected to slacken, the civilian unemployment rate should remain below the 5.5% full-employment rate. In other words, after several years of unusual tightness, labor markets should gradually return to more normal levels.

Production and Business **Investment:** The slowing national economy will exact a toll on industrial production and business investment. After posting threestraight years of growth above 3.0% from 1996 through 1998, real GDP is forecast to advance by just 1.7% in 1999. Not surprisingly, industrial U.S. production should also experience noticeable slowdown. The current forecast shows this measure's growth dropping from 1998's 3.1% to 1.3% in 1999. After 1999, industrial production should recover, advancing 2.8% in



2000, 2.5% in 2001, and 3.5% in 2002. After the current soft landing, manufacturing output will rebound with 3.0% growth in 2000 and average 3.2% gains from 2000 to 2003. That is weaker than the 4.5% average of the previous four years, but slightly higher than the average for the past 20 years. Although production growth will be respectable across the manufacturing sectors, operating rates will slip under 80% in the near term before stabilizing. The good news is that this is well below the inflationary threshold. The down side to this is that the lower operating rate will dampen the need for new investment. As a result, real nonresidential fixed investment, which had grown at double-digit rates in both 1997 and 1998, should slow to less than 4.0% growth in both 1999 and 2000. Real producers' durable equipment, which had expanded nearly 17.0% last year, should advance just 6.5% in 1999 and 4.7% in 2000. Real investment in nonresidential structures is hit even harder than producers' durable equipment spending. Real nonresidential structure investment is expected to have declined 1.6% in 1998 and should fall another 3.8% in 1999. The outlooks for both of these sectors should improve slowly after 1999. Overall, real nonresidential fixed investment is forecast to rise 11.3% in 1998, 3.8% in both 1999 and 2000, 4.2% in 2001, and 6.2% in 2002. It should be noted that the economy has made a smooth transition to lower inventory growth. Inventories accumulated at an unsustainable fast pace during the first part of 1998. This raised fears that a strong inventory correction would follow. While inventory growth did taper off, it did it in an orderly manner and the economy was spared the pain of a severe inventory correction.

IDAHO FORECAST DESCRIPTION The Forecast Period is the Third Quarter of 1998 to the Fourth Quarter of 2002

The outlook for Idaho employment over the next few years has improved since the October 1998 daho Economic Forecast was published. The biggest change occurs in 1998. Previously it was anticipated that nonfarm employment in the Gem State would rise 2.2% to 520,182. In the current forecast, this same measure is expected to increase 2.9% to 523,580. All of this improvement reflects the stronger-than-expected job picture in the second and third quarters of 1998. New data show that employment was more than 4,000 higher than had been previously estimated in each of these quarters. The most notable surprise was construction, whose employment was up more than a 1,000 in each of these quarters. Services-related employment was up around 2,000 compared to the last forecast. Interestingly, Idaho real and nominal personal incomes are both down slightly during those same two quarters. This is due in large part to the impact of lower interest rates on the dividend, interest, and rent portion of personal income.

The higher employment numbers in 1998 will not have much of an impact beyond raising the starting point for the current forecast. As was mentioned above, the nonfarm employment growth rate in 1998 has been raised from 2.2% to 2.9%. However, employment expands at roughly the same rate in the remaining years of this forecast as it did in the previous one. Specifically, it is forecast to rise 1.6% in 1999, 2.2% in 2000, 2.1% in 2001, and 2.5% in 2002. In the previous forecast it was expected to rise 1.6% in 1999, 2.1% in 2000, 2.1% in 2001, and 2.6% in 2002. This is not surprising because the national outlook has not changed dramatically. Idaho personal income displays a similar pattern. Idaho nominal personal income rises 4.4% in 1999, 5.1% in 2000, 5.2% in 2001, and 5.6% in 2002. This about the same as in the previous forecast. Idaho real personal income is forecast to rise 2.4% this year, 2.7% next year, 2.6% in 2001, and 2.9% in 2002.

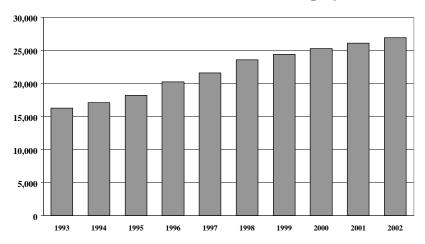
Although the baseline forecast does not include a recession, this is a possibility. If the national economy were to slip into a recession, the outlook for Idaho's economy would not be as bright. This is explored in detail in the *Alternative Forecasts* section of this report. To summarize, while growth rates for both Idaho nonfarm employment and personal income would vary, the levels of both would be lower than in the baseline case by 2002. It bears repeating again: no recession is anticipated over the forecast period. However, the expected slowing does increase the economy's exposure to a national downturn.

SELECTED IDAHO ECONOMIC INDICATORS

Electrical and Nonelectrical Machinery: Idaho's electrical and nonelectrical manufacturing sector should experience slow employment gains over the forecast period. This is a significant change from this decade's first seven years when the state's high-tech boom helped this sector's employment rise 8.0% annually. Most of these job gains came from two Boise firms, Micron Technology and Hewlett-Packard. Both benefited from products that were in high demand. Micron, one of the world's largest manufacturers of computer memory, prospered earlier this decade thanks to the strong demand for memory caused by burgeoning personal computer sales and the increased memory demands of both increasingly complex computer hardware and software systems. This bolstered Micron's profits and helped its employment expand rapidly in the early 1990s. Company-wide employment also increased due to the company's diversification into other areas, such as the manufacturing of complete personal computer systems. However, things changed abruptly in 1996. The price of memory chips collapsed that year as Asian competitors flooded the market with memory chips from newly operational plants. This slump still persists, but there are some signs that it has bottomed out. Recently, Micron was able to raise the prices for some of its products. Not only has the company survived the recent downturn, but it seems well positioned to take advantage when the market improves further. Micron completed its purchase of Texas

Instruments' memory business in the autumn of 1998. This move have little should short-term impact on Idaho employment. However, it could have a more subtle impact down the road. Micron acquired several semiconductor fabrication plants around the world as part of its Texas Instruments' deal. company also has a mothballed plant in Utah. Thus, the company has significant excess capacity available when the memory chip market turns around. Unfortunately, none of this new capacity is in Idaho. Thus, when

Idaho Electrical & Nonelectrical Employment

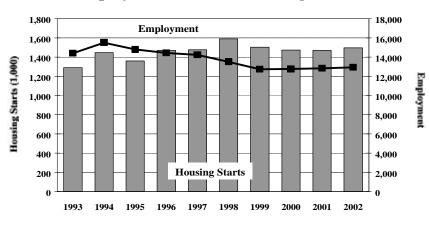


chip prices rise, it can no longer be assumed that increased production and jobs will occur in Boise. They may take place in Utah or one of the other newly acquired plants instead. In October, Intel invested \$500 million in Micron. This investment was made to assist Micron's development of the next generation of memory products. This move helps Micron remain a cutting-edge player in the global market. The fortunes of Hewlett-Packard's Boise site also surged in the early 1990s thanks to favorable market conditions. The demand for this company's popular laser printers and the other products developed and manufactured in Boise helped its local employment swell over 5,000. Its employment has contracted since then. In the mid-1990s, the company refocused the Boise site's mission away from production toward research and development. As a result, the surface mount and hard drive manufacturing operations at the Boise plant were dropped. This took employment down to about 4,000. In a similar move, Hewlett-Packard recently sold the manufacturing assets of its formatter board manufacturing operations to Jabil Circuit, Inc. This lowered Hewlett-Packard's employment by another 300 jobs. However, this change has had a negligible impact on this sector's employment. This is because Jabil has hired most of Hewlett-Packard's formatter operation's staff and kept them in BoiseIdaho electrical and nonelectrical employment is forecast to rise 9.3% in 1998, 3.4% in 1999, 3.6% in 2000, 3.4% in 2001, and 3.1% in 2002.

Lumber and Wood Products:

Idaho lumber and wood products employment projected is decline over the forecast period, continuing a down cycle that began in 1995. From that year to 1997, the number of jobs in this sector has fallen from 14.795 to 14,241. Unfortunately, job losses continued through 1998. About 40 positions were lost when Boise Cascade closed its Horseshoe Bend Mill in the fall of 1998. But bad news was not limited to Southern Idaho. About 50 workers lost their jobs when the Gem State Lumber Company Mill

Idaho Lumber & Wood Products Employment and U.S. Housing Starts

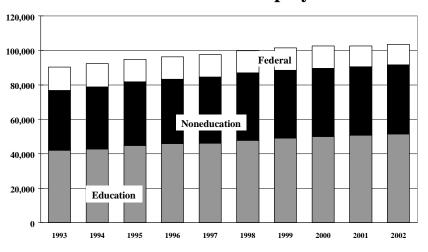


Sources: Standard and Poor's DRI and DFM

salvaged. Benewah County lost its second largest employer when Rayonier Incorporated decided not to rebuild its Plummer sawmill that burned last July. Nearly 125 employees worked at the sawmill before the fire. In November 1998, Crown Pacific announced that it will close its Colburn, Idaho sawmill in January 1999. Nearly 100 workers will be affected by the closure. Company officials cited low lumber prices and the sawmill's age as the reasons for the closure. In other news affecting the Panhandle's lumber and wood products sector, last fall Louisiana Pacific puts its Chilco and Sandpoint operations up for sale. Most of this industry's current woes can be traced to supply rather than demand. The strong dollar and weak Asian economies have dampened the demand for lumber and wood product exports. Thus, these exports have been redirected to the domestic market. This helps explain why lumber prices have been relatively soft despite the strong national housing market. In addition, the weak Canadian dollar has lowered the price of Canadian wood products, which has also contributed to the already swollen supply. These are short-term challenges. The major long-term challenge facing this industry is the dwindling supply of timber from public lands. Idaho has traditionally been dependent on timber from federal lands, but in recent years the supply of logs from these public lands has fallen. The uncertainty of public timber supply should limit future investment and employment in the Gem State's lumber and wood products sector. From 1998 to 2002, Idaho lumber and wood products employment is projected to fall from 13,519 to 12,951.

Federal. State. and Local Governments: Idaho government employment growth should slow noticeably over the forecast period. Thanks to a booming economy and strong population growth, Idaho state and local employment advanced over 3.5% annually from 1990 to 1995. In comparison, national state and local employment averaged just 1.6% annual growth over the same period. However, Idaho will see this spread shrink over the forecast period. As overall employment and population growth slow over the next few years, so will state local government and

Idaho Government Employment

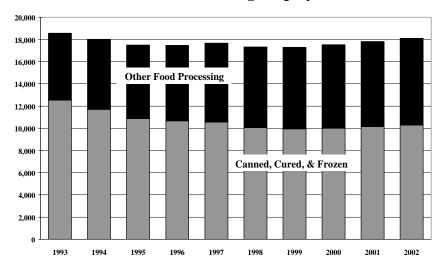


employment. In addition, future employment growth will be challenged by laws limiting Idaho local governments' budget growth. From 1998 to 2002, Idaho state and local employment is expected to rise an average of 1.3% per year. This is slightly slower than its national counterpart that is forecast to increase about 1.9% per year. Education-related employment should grow slightly faster than the Idaho government average. Specifically, Idaho education-related government employment is projected to expand 1.9% annually from 1998 to 2002, from nearly 48,000 to just over 51,600. On the other hand, Idaho noneducation government employment should rise just 0.6% per year. As a result of ongoing federal austerity measures, Idaho federal government employment is anticipated to decline over the next few years, going from 12,954 in 1998 to 11,966 in 2002, a drop of about 2.0% per year. It will, however, get a one-quarter respite in the beginning of 2000 with the hiring of temporary workers for Census 2000.

Food Processing: Idaho's largest nondurable manufacturing sector suffered a blow last fall when H.J. Heinz Company announced that it will be consolidating Ore-Ida Foods Incorporated and Weight Watchers Gourmet Food Company into a new Pittsburgh-based entity called Heinz Frozen Food Company. The move will cost approximately 400 jobs in Idaho. Nearly 250 jobs at Ore-Ida's Boise

headquarters will be lost when the move is completed this July. All current Boise employees will be given the opportunity to apply for iobs in Pittsburgh. This decline follows the loss of about 150 positions that resulted from the sale of Ore-Ida's food service business to McCain Foods of Canada. After this year's changes, only about 85 of the company's employees will remain in Boise. In addition to this drop, nearly 150 workers at the Weight Watchers Pocatello plant will lose their jobs. The Gem State's food processing employment is forecast to decline 1.8% in 1998, fall another 0.2% in

Idaho Food Processing Employment

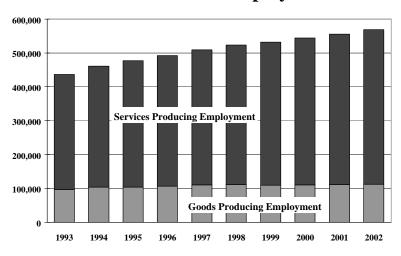


1999, then rise 1.2% in 2000, 1.7% in 2001, and 1.6% in 2002.

Services-Producing Industries:

The services-producing sector is the state's largest and most diverse employment category. There were nearly 400,000 service-producing jobs in 1997, which was nearly eight of every ten jobs in Idaho. This category includes finance, and insurance, real transportation, communications. and public utilities; trade; services; and government. Not surprisingly, this sector has been the major engine of growth over the last few years. Over the ten years from 1987 to 1997 Idaho has gained 135,000 services-producing jobs. This represents more than three-

Idaho Nonfarm Employment

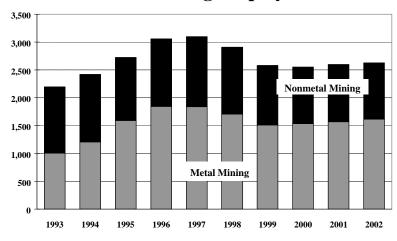


quarters of the state's total nonfarm job increase during that same period. This growth is attributable to the positive influences of favorable cyclical and structural factors. Structural changes include the movement of certain "back office" operations into the state. Two examples of this are the Sears Regional Credit Center and the MCI Call Center, both are based in Boise. The services-producing sector has also been bolstered by ongoing structural changes. One of the most significant trends has been the increasing number of women in the labor force. This has raised the demand for a wide range of goods and services, such as childcare and meals away from home. Another change agent has been the growing number of single-person and single-parent households, due partly to the increasing number of persons delaying their first marriages and the greater number of divorced persons. All of these factors will continue to play a role in the future of the trade and services sectors. Other demographic trends also figure in this sector's future. Most notably, as this country's baby-boom generation ages, it will strain the supply of existing services for the aged. In addition, this generation of older persons will probably be healthier than previous

generations and will demand more recreational/leisure services<u>Idaho services-producing employment is</u> forecast to rise 3.5% in 1998, 2.5% in 1999, 2.4% in 2000, 2.5% in 2001, and 2.8% in 2002.

Mining: The expected slowing of the national economy will also take a toll on the state's mining sector. After rising four straight vears. Idaho mining employment peaked in 1997 at just under 3,100. Despite a deflationary trend in many metal prices, silver was actually about \$1/troy ounce higher in the first half of 1998 compared to 1997's average price. Unfortunately, other important metal prices did not fare as well. Zinc, lead, and molybdenum prices fell below last year's average. Lower prices contributed to the decision to cut production

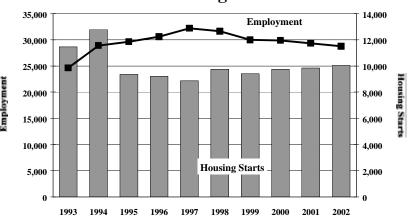
Idaho Mining Employment



and lay off 75 of the 250 employees at the Thompson Creek molybdenum mine and mill in Custer County. Both metal and nonmetal mining employment will slide this year. Metal mining employment will take the biggest hit. Its employment is forecast to drop from about 1,840 in 1997 to 1,619 in 2002. This pattern continues the recent trend in which no metal mining employment zenith has matched the previous peak. For example, metal mining employment peaked at 2,800 in 1984. Its next peak was 2,754 in 1990. But 1997's peak was just 1,847, about 900 lower than 1990's high. Metal mining employment in Idaho is expected to go from 1,710 in 1998 to 1,619 in 2002. In addition to the slowing economy, nonmetal mining employment will suffer under the additional weight of construction and agricultural problems. The expected flattening of the construction industry will hurt certain nonmetal mining sectors, such as rock quarrying, sand, and gravel. Agricultural woes will probably result in a reduction of fertilizer production and shrinking acreage. This will affect companies in Southeast Idaho where both phosphorus ore is mined and fertilizer is manufactured. As a result of these negative factors, Idaho nonmetal mining employment is projected to decline from 1,256 in 1997 to 1,009 in 2002. Overall, total mining employment in the Gem State should drop from 2,908 in 1998 to 2,628 in 2002.

Construction: Construction employment is expected to slowly decline over the forecast period. This is a marked departure from the earlier part of this decade when this sector enjoyed robust job gains. Hard times fell on the construction sector during the 1980s, and it hit a low in 1987 when employment dropped below 14,000. In that same year there were only 3,400 housing starts in the entire state. However, in the late 1980s the combination of a strong economy, strong population growth, and increased public and

Idaho Construction Employment and **Housing Starts**



private building returned construction employment on a growth path. For example, from its 1988 nadir to its peak in 1994, the number of housing starts more than tripled from 3,334 units to 12,768 units. Over this same period the number of Idaho construction jobs climbed from 14,205 to 28,983, which translates to an incredible 12.6% average annual pace. The number of housing starts dropped to a still-high 9,300 units in 1995 and declined slightly in both 1996 and 1997. However, thanks to strength in nonresidential building, construction employment managed to still post modest gains in these three years The current forecast calls for Idaho housing starts to eventually work its way back up to about 10,000 by the year 2000. After peaking at just over 32,000 in 1997, Idaho construction employment is expected decline to about 28,800 jobs by 2002.

ALTERNATIVE FORECASTS

DRI has assigned a 55% probability of occurrence to its November 1998 baseline forecast of the U.S. economy. The major features of this forecast include:

- real GDP growth is 3.6% this year, dips to 1.7% next year, then averages about 2.3% thereafter;
- U.S. nonfarm employment rises 2.5% in 1998 then grows between 1.2% and 1.3% through 2002:
- the U.S. civilian unemployment rate rises gradually from 4.5% this year to 5.4% in 2002;
- consumer confidence peaks in 1998, then tapers off over the forecast period;
- consumer inflation accelerates from 1998's 1.6%, but remains under 3.0% through 2002;
- the federal budget posts surpluses in each year of the forecast;
- and the U.S. merchandise trade deficit widens.

While the baseline scenario represents the most likely outcome for the national economy over the next few years, the uncertainties surrounding several key variables mean that other outcomes are also possible. To account for this, DRI prepares alternative forecasts based on different assumptions regarding these key variables. Two of these alternative forecasts, along with their impacts on the Idaho economy, are discussed below.

While it is believed the economy will not suffer a recession over the forecast period, it should be noted that the risk of a recession is high. A review of the probabilities of occurrence for each forecast scenario shows this. The baseline does not include a recession and its probability of occurrence is 55%. However, both of the alternative scenarios do contain recessions and their combined probability of occurrence is 45%. This implies the chances of the economy suffering a recession are just about even with the economy escaping a recession.

PESSIMISTIC SCENARIO

This scenario has been assigned a 30% probability of occurrence. In this case, the Asian contagion spreads further and is more harmful than in the baseline case. An unexpected devaluation of the Chinese currency in early 1999 starts a domino effect that is eventually felt in the U.S. The mechanics of this chain of events is as follows: the Chinese monetary devaluation sets off another round of currency devaluations in Asia. As a result, regional stock markets turn down and recessions deepen in all major Asian countries, including China. Stiff competition from Asian producers, aided by their cheaper currencies, drags Latin America into recession. The Latin American currencies then collapse in response to the Asian devaluations. These international troubles cut U.S. exports, which results in the layoffs of American workers.

As a result of these layoffs, U.S. consumer confidence falls and this takes a toll on consumer spending. This, along with the ongoing slide in foreign demand, pushes the U.S. economy into recession in the first quarter of 1999. The sale of large-ticket items is especially hard hit during this downturn. For example, despite the lowest mortgage rates since the mid-1960s, the housing market falters. The economy is not left alone to recover from its wounds, however. It is assumed the Federal Reserve lowers interest rates quickly

IDAHO ECONOMIC FORECAST

BASELINE AND ALTERNATIVE FORECASTS JANUARY 1999

	1999	BASE 2000	LINE 2001	2002	1999	PESSIN 2000	ISTIC 2001	2002	1999	LATE RE 2000	CESSION 2001	2002
GDP (BILLIONS)												
Current \$	8,775	9,158	9,547	10,014	8,621	8,859	9,215	9,670	8,866	9,059	9,455	9,984
% Ch	3.4%	4.4%	4.2%	4.9%	1.6%	2.8%	4.0%	4.9%	4.4%	2.2%	4.4%	5.6%
1992 Chain-Weighted	7,661	7,837	7,999	8,200	7,527	7,631	7,832	8,090	7,717	7,668	7,819	8,066
% Ch	1.7%	2.3%	2.1%	2.5%	0.0%	1.4%	2.6%	3.3%	2.5%	-0.6%	2.0%	3.2%
PERSONAL INCOME - CURR \$		00.400	20.042	24.024	00.000	20.042	20.200	20.077	07.040	20.050	20.000	24.002
Idaho (Millions) % Ch	27,074 <i>4.4%</i>	28,460	29,943	31,624	26,889 3.7%	28,042	29,366 <i>4.7%</i>	30,877	27,240	28,650	30,068	31,863
U.S. (Billions)	7,426	5.1% 7,748	<i>5.2%</i> 8,088	5.6% 8,470	7,349	<i>4.3%</i> 7,550	7,831	<i>5.1%</i> 8,187	5.0% 7,483	<i>5.2%</i> 7,791	<i>4.9%</i> 8,068	6.0%
% Ch	4.3%	4.3%	4.4%	4.7%	3.2%	2.7%	3.7%	4.6%	5.1%	4.1%	3.6%	8,475 <i>5.1%</i>
70 GII	4.570	4.570	7.470	4.170	3.2 /0	2.770	3.770	4.070	3.170	4.170	3.070	0.170
PERSONAL INCOME - 1992 \$												
Idaho (Millions)	23,549	24,175	24,808	25,539	23,467	24,070	24,709	25,496	23,587	24,002	24,525	25,325
% Ch	2.4%	2.7%	2.6%	2.9%	2.1%	2.6%	2.7%	3.2%	2.6%	1.8%	2.2%	3.3%
U.S. (Billions)	6,459	6,582	6,702	6,841	6,410	6,474	6,582	6,754	6,480	6,527	6,581	6,737
% Ch	2.3%	1.9%	1.8%	2.1%	1.5%	1.0%	1.7%	2.6%	2.6%	0.7%	0.8%	2.4%
TOTAL NONFARM EMPLOYME	ENT											
Idaho (Thousands)	532.2	543.7	555.4	569.0	529.7	538.7	551.8	566.7	533.2	540.7	548.7	566.0
% Ch	1.6%	2.2%	2.1%	2.5%	1.2%	1.7%	2.4%	2.7%	1.8%	1.4%	1.5%	3.2%
U.S. (Millions)	127.4	128.9	130.5	132.2	126.3	126.3	127.9	130.3	127.9	127.9	127.9	130.2
% Ch	1.3%	1.2%	1.2%	1.3%	0.4%	0.0%	1.3%	1.9%	1.7%	0.0%	0.0%	1.8%
GOODS PRODUCING SECTOR												
Idaho (Thousands)	109.1	110.4	111.4	112.5	107.3	107.2	109.4	111.0	109.8	108.3	109.1	112.8
% Ch	-1.5%	1.2%	0.9%	0.9%	-3.2%	-0.1%	2.0%	1.5%	-0.9%	-1.4%	0.8%	3.4%
U.S. (Millions)	24.5	24.1	23.9	23.9	24.1	23.0	22.9	23.3	24.7	23.8	23.1	23.4
% Ch	-2.9%	-1.7%	-0.8%	0.0%	-4.5%	-4.4%	-0.5%	1.5%	-2.1%	-3.7%	-2.7%	1.4%
SERVICE PRODUCING SECTO	ıD.											
Idaho (Thousands)	423.1	433.3	443.9	456.6	422.4	431.5	442.4	455.7	423.4	432.4	439.6	453.2
% Ch	2.5%	2.4%	2.5%	2.8%	2.3%	2.1%	2.5%	3.0%	2.6%	2.1%	1.6%	3.1%
U.S. (Millions)	102.9	104.9	106.6	108.3	102.2	103.2	104.9	107.0	103.2	104.1	104.8	106.7
% Ch	2.3%	1.9%	1.7%	1.6%	1.6%	1.0%	1.7%	2.0%	2.6%	0.9%	0.7%	1.9%
FINANCIAL MARKETS												
Federal Funds Rate	4.4%	4.1%	4.5%	4.5%	3.9%	3.5%	3.9%	4.5%	4.9%	5.4%	4.4%	3.6%
Bank Prime Rate	7.4%	7.1%	7.5%	7.5%	6.9%	6.5%	6.8%	7.5%	7.7%	8.4%	7.4%	6.6%
Mort Rate, New Homes	6.7%	6.3%	6.5%	6.6%	6.6%	6.3%	6.5%	6.9%	6.8%	7.4%	7.1%	6.6%
INFLATION												
GDP Price Deflator	1.6%	2.0%	2.1%	2.3%	1.5%	1.3%	1.4%	1.6%	1.9%	2.8%	2.4%	2.4%
Personal Cons Deflator	2.0%	2.4%	2.1%	2.6%	1.6%	1.7%	2.0%	1.0%	2.4%	3.4%	2.7%	2.6%
Consumer Price Index	2.4%	2.7%	2.8%	2.8%	2.1%	1.9%	2.1%	2.1%	2.9%	3.7%	2.8%	2.7%

Forecast Begins the THIRD Quarter of 1998

and aggressively. The recession is relatively mild thanks to the fundamental strength of the U.S. economy, the lack of domestic inflation, and the timely Federal Reserve action. By 2000, the economy is on the mend. Unfortunately, it takes the federal budget longer to recover. The recession cuts tax revenues, sending the federal budget into red ink in fiscal years 2000, 2001, and 2002.

In this scenario Idaho employment growth is weaker in the first two years compared to the baseline forecast. However, it does pick up speed in the latter half of the forecast period as the national economy rebounds from its downturn. Despite its late surge, Idaho nonfarm employment never fully closes the gap between this scenario and the baseline. In 2002, Idaho nonfarm employment is about 2,000 lower than in the baseline case. Like employment, Idaho personal income also grows slower in the first half of the forecast. In 2002, Idaho nominal personal income is \$750 million lower than in the baseline and Idaho real personal income is down about \$40 million.

LATE-RECESSION SCENARIO

The *Late-Recession Scenario* has been assigned a 15% probability of occurrence. In this scenario, the U.S. economy is strong, but not booming, through 1999. With confidence relatively high and wages rising, consumers continue to spend. The strong domestic demand offsets the slowdown in exports to Asia, helping the unemployment rate remain low. Desiring to ward off any near-term U.S. recession while not doing anything to further damage those foreign economies in crises, the Federal Reserve cuts the federal funds rate to 4.5% in the spring of 1999. Eventually, this strong growth leads to higher inflation. Oil prices increase as producers successfully cut back production. Further, the strong consumption prompts greater investment in both equipment and structures, creating bottlenecks in the capital goods industry and putting additional upward pressure on prices. By late-spring 1999, it is clear that higher wage and fringe benefit increases are flowing through to consumer prices.

The Federal Reserve attempts to stem inflation by raising the federal funds rate beginning in the summer of 1999. As inflation accelerates, consumer confidence plunges and bond yields rise, which causes the stock market to drop. The decline in consumer confidence drags down consumer spending and new home construction. With consumers retrenching, investments in both inventories and new facilities collapse. The economy slides into a three-quarter recession in 2000, producing a 2.0% peak-to-trough decline in real GDP. By the end of the recession, the stock market has retreated about 20% from its mid-1999 peak.

Idaho nonfarm employment is initially stronger in this scenario, but this advantage proves to be small and fleeting. In 1999, Idaho nonfarm employment is about 1,000 higher compared to the baseline. However, the slowing U.S. economy takes its toll on Idaho employment in the remaining years, and by 2002 Idaho nonfarm employment is actually 3,000 lower than in the baseline case. Interestingly, Idaho nominal personal income is higher in each year than in the baseline forecast. However, most of this gain is driven by higher inflation. After adjusting for inflation, Idaho personal income in this scenario is actually lower in the last three years of the forecast compared to the baseline case.

Idaho General Fund Revenue

History and Projections

The following pages provide descriptions of the sources of General Fund revenue, historical rate and distribution formula information, historical revenue collection and distribution information, and a brief explanation of the basis of the forecast for each source of revenue that contributes to the General Fund.

Three primary revenue categories (individual income tax, corporate income tax, and sales tax) presently account for almost 94% of General Fund revenue. These sources of revenue are forecast using a combination of econometric methods and judgment. The econometric method is multiple regression, using variables contained in the Idaho Economic Model (IEM). Exogenous forecast data are obtained from the January 1999 *Idaho Economic Forecast* Both are products of the Division of Financial Management. The judgmental factors considered include the effects of rate changes, other law changes, judicial decisions, and knowledge not reflected in the econometric analysis.

Product taxes and miscellaneous revenue sources are forecast using collections history, trend analysis, law changes, receipts-to-date, and a broad array of contacts with individuals responsible for or otherwise involved with the collection of each revenue category. The largest miscellaneous revenue category, Insurance Premium Tax, is forecast in cooperation with the staff of the Department of Insurance, using simulation models to account for relevant variables and parameters that affect the cash flow into the General Fund.

GENERAL FUND REVENUES*

(\$ MILLIONS)

				ACTUA	L		
SOURCE	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994
INDIVIDUAL INCOME TAX	\$287.16	\$343.08	\$398.28	\$432.22	\$459.44	\$508.02	\$559.17
% CHANGE	8.7%	19.5%	16.1%	8.5%	6.3%	10.6%	10.1%
CORRODATE INCOME TAY	¢(2.01	φ 73 0ζ	φ 72 40	¢(0.03	\$55.05	\$70.00	\$87.63
CORPORATE INCOME TAX	\$63.91	\$72.96	\$72.49	\$60.02	\$57.97	\$70.00	•
% CHANGE	38.4%	14.2%	-0.6%	-17.2%	-3.4%	20.8%	25.2%
SALES TAX	\$258.76	\$288.78	\$319.29	\$335.74	\$364.32	\$402.82	\$452.68
% CHANGE	-0.2%	11.6%	10.6%	5.2%	8.5%	10.6%	12.4%
CIGARETTE TAX	\$6.92	\$6.79	\$5.88	\$6.86	\$7.07	\$7.00	\$7.61
BEER TAX	\$1.53	\$1.51	\$1.55	\$1.60	\$1.66	\$1.70	\$1.71
WINE TAX	\$0.87	\$0.79	\$0.77	\$0.75	\$0.75	\$0.75	\$0.81
LIQUOR SURCHARGE	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>
PRODUCT TAXES Subtotal	\$14.26	\$14.04	\$13.15	\$14.16	\$14.43	\$14.39	\$15.07
% CHANGE	-8.3%	-1.6%	-6.3%	7.7%	1.9%	-0.2%	4.7%
KILOWATT-HOUR TAX	\$1.49	\$1.59	\$1.68	\$1.78	\$1.61	\$1.45	\$2.09
MINE LICENSE TAX	\$0.57	\$0.21	\$0.25	\$0.47	\$0.59	\$0.11	\$0.47
TREASURER	\$10.01	\$16.18	\$17.55	\$19.39	\$11.81	\$10.54	\$10.61
JUDICIAL BRANCH	\$2.86	\$3.14	\$3.43	\$3.33	\$3.39	\$3.21	\$3.72
DEPT. OF INSURANCE	\$31.18	\$26.22	\$25.21	\$28.64	\$31.94	\$28.81	\$33.19
DEPT. OF LAW ENFORCEMEN		\$1.03	\$1.08	\$0.99	\$1.01	\$0.96	\$1.04
UNCLAIMED PROPERTY	\$1.00	\$0.74	\$1.16	\$1.15	\$1.35	\$1.34	\$1.71
OTHER DEPTS. & TRANS.	<u>\$3.19</u>	<u>\$4.56</u>	\$3.50	<u>\$3.61</u>	<u>\$3.98</u>	<u>\$1.82</u>	<u>\$5.69</u>
MISC. REVENUE Subtotal	\$51.33	\$53.67	\$53.86	\$59.36	\$55.68	\$48.23	\$58.52
% CHANGE	8.9%	4.6%	0.3%	10.2%	-6.2%	-13.4%	21.3%
TOTAL GENERAL FUND	\$675.42	\$772.53	\$857.08	\$901.50	\$951.84	\$1,043.47	\$1,173.08
% CHANGE	6.8%	14.4%	10.9%	5.2%	5.6%	9.6%	12.4%

^{*} Totals may not add due to rounding.

GENERAL FUND REVENUES*

(\$ MILLIONS)

		ACT	UAL		FORE	CAST
SOURCE	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
INDIVIDUAL INCOME TAX	\$596.46	\$650.85	\$704.82	\$776.19	\$818.64	\$862.60
% CHANGE	6.7%	9.1%	8.3%	10.1%	5.5%	5.4%
CODDOD A TE INCOME TA V	\$121 <i>(1</i>	¢1 <i>5</i> 1 00	¢122.26	¢117 30	¢110.20	¢112.20
CORPORATE INCOME TAX	\$131.64	\$151.98	\$122.36	\$117.29	\$110.39 5.00/	\$113.30
% CHANGE	50.2%	15.5%	-19.5%	-4.1%	-5.9%	2.6%
SALES TAX	\$481.57	\$463.00	\$476.73	\$496.81	\$577.60	\$603.20
% CHANGE	6.4%	-3.9%	3.0%	4.2%	16.3%	4.4%
CIGARETTE TAX	\$7.25	\$7.48	\$7.49	\$7.48	\$7.30	\$7.00
BEER TAX	\$1.65	\$1.62	\$1.63	\$1.62	\$1.65	\$1.68
WINE TAX	\$1.14	\$1.52	\$1.66	\$1.80	\$1.80	\$1.85
LIQUOR SURCHARGE	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>	<u>\$4.95</u>
PRODUCT TAXES Subtotal	\$14.99	\$15.57	\$15.73	\$15.84	\$15.70	\$15.47
% CHANGE	-0.6%	3.9%	1.0%	0.7%	-0.9%	-1.4%
KILOWATT-HOUR TAX	\$1.69	\$2.89	\$2.97	\$3.24	\$3.00	\$2.80
MINE LICENSE TAX	\$0.29	\$0.80	\$0.66	\$0.96	\$0.50	\$0.50
TREASURER	\$15.00	\$18.54	\$18.24	\$17.93	\$17.71	\$7.81
JUDICIAL BRANCH	\$3.89	\$4.24	\$4.71	\$5.02	\$5.10	\$5.20
DEPT. OF INSURANCE	\$34.93	\$36.13	\$40.26	\$42.85	\$41.67	\$42.47
DEPT. OF LAW ENFORCEMENT	\$1.07	\$1.05	\$1.14	\$1.15	\$1.20	\$1.20
UNCLAIMED PROPERTY	\$2.09	\$1.39	\$0.83	\$1.17	\$0.50	\$0.50
OTHER DEPTS. & TRANS.	<u>\$4.49</u>	<u>\$4.51</u>	\$3.41	<u>\$3.70</u>	\$3.90	<u>\$2.30</u>
MISC. REVENUE Subtotal	\$63.46	\$69.55	\$72.23	\$76.01	\$73.58	\$62.78
% CHANGE	8.4%	9.6%	3.9%	5.2%	-3.2%	-14.7%
TOTAL GENERAL FUND	\$1,288.10	\$1,350.94	\$1,391.86	\$1,482.14	\$1,595.91	\$1,657.35
% CHANGE	9.8%	4.9%	3.0%	6.5%	7.7%	3.9%

st Totals may not add due to rounding.

INDIVIDUAL INCOME TAX

Description: (Title 63, Chapter 30, *Idaho Code*)

Collections from the individual income tax are based on a graduated scale of tax rates that are applied to brackets of taxable income. Current and past individual income tax rate brackets are detailed in the following table.

INDIVIDUAL INCOME TAX RATE HISTORY

Tax Rates on th	ne Portion o	f Taxable Iı	ncome (1)						
Greater Than	\$0	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	\$7,500	\$20,000
But Not									
More Than	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	\$7,500	\$20,000	
Tax 1931	1.0%	1.0%	2.0%	2.0%	3.0%	3.0%	4.0%	4.0%	4.0%
Years 1933	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.0%	6.0%	6.0%
1935	1.5%	3.0%	4.0%	5.0%	6.0%	8.0%	8.0%	8.0%	8.0%
1955 ²	1.61%	3.23%	4.30%	5.38%	6.45%	8.60%	8.60%	8.60%	8.60%
1957 ³	2.0%	4.0%	5.5%	6.6%	7.7%	8.8%	8.8%	8.8%	8.8%
1959	3.5%	5.0%	6.5%	7.5%	8.5%	9.5%	9.5%	9.5%	9.5%
1963	3.4%	5.5%	7.2%	8.25%	9.35%	10.5%	10.5%	10.5%	10.5%
1965	2.5%	5.0%	6.0%	7.0%	8.0%	9.0%	9.0%	9.0%	9.0%
1972	2.0%	4.0%	4.5%	5.5%	6.5%	7.5%	7.5%	7.5%	7.5%
1987	2.0%	4.0%	4.5%	5.5%	6.5%	7.5%	7.5%	7.8%	8.2%

^{1.} Amounts shown are for single and married filing separate returns.

For all other filing status returns double the income amounts at the top of the columns.

State law pertaining to the Idaho income tax base conforms to most of the provisions enacted in the federal Internal Revenue Code (IRC). Notable exceptions include: a) retention of the state investment tax credit, including its tie-in to the federal definition of eligible property, and b) enactment of a limited capital gains exclusion at the state level that has a different basis than the recently reenacted federal capital gains exclusion.

Most individual income tax collections occur through the monthly withholding process. The remainder is collected through filing collections, which consist of payments made with tax returns and payments associated with audit recoveries. Since the enactment of Idaho's income tax in 1931, all net tax liability, interest, and penalties have been distributed to the General Fund. (An amount equal to 20% of the individual income taxes collected by the State Tax Commission and deposited with the State Treasurer is required by statute to be deposited in the State Income Tax Refund Fund. Any balance exceeding \$400,000 in the State Income Tax Refund Fund at the end of the year is transferred to the General Fund on June 30.) A separate filing tax of \$10 per income tax return has been assessed since 1959. Proceeds of the filing tax went to the General Fund until 1961, when their distribution was changed to the Permanent Building Fund. The income tax return form includes a variety of other "checkoffs" that can be used by the taxpayer to donate various amounts (usually from refunds) to special funds such as nongame wildlife, drug enforcement, etc.

 $^{2. \ \,} Rates shown include 7.5\% \ surcharge \ on \ all \ brackets. \ Effective \ in \ 1955 \ and \ 1956.$

^{3.} Rates shown include 10% surcharge on brackets greater than \$2000. Effective in 1957 and 1958.

Basis of Projection:

The projections of General Fund revenue from the individual income tax for FY 1999 and FY 2000 are based on a combination of econometric analysis and judgment.

The econometric analysis begins with the Idaho Economic Model (IEM), an economic base model of Idaho's economy that is used to derive employment by industry and by income type. Idaho income data is then used to correlate historical net withholding collections (gross withholding collections less refunds) to Idaho wage and salary payments. Filing collections are estimated using proprietors' income as the primary explanatory variable.

The econometric-based forecast of net withholding collections and filing collections are then adjusted to reflect: a) new features of the tax law that are expected to impact future collections and accruals, and b) effects of other factors that are expected to have impacts not reflected in the econometric analysis.

The forecast that follows assumes no further change in current Idaho income tax law, a standard practice of this Division's revenue analysis.

Historical Data:

INDIVIDUAL INCOME TAX

(\$ THOUSANDS)

				Distribu	tions		
					Perm.	Misc.	% Share
		Gross			Building	"Check-Off"	of Total
Year		Collections	Refunds	Gen. Fund	Fund	Donations	Gen. Fund
FY70	Actual	\$45,142.4	\$6,603.4	\$35,858.8	\$1,120.0		36.4%
FY71	Actual	51,186.4	7,512.8	40,738.9	1,104.3		38.5%
FY72	Actual	64,107.9	9,460.1	51,235.1	1,040.2		41.7%
FY73	Actual	76,510.6	13,658.2	59,164.7	977.7		41.0%
FY74	Actual	95,374.0	16,058.6	75,103.7	973.4		42.7%
FY75	Actual	117,911.0	23,372.8	89,566.5	1,046.8		43.6%
FY76	Actual	131,064.3	24,436.3	99,387.0	940.7	\$38.7	43.9%
FY77	Actual	150,650.7	29,844.0	116,587.3	920.6	45.6	46.2%
FY78	Actual	169,195.1	24,210.7	143,660.6	39.6	8.4	48.8%
FY79	Actual	198,231.0	31,245.2	163,203.8	907.8	104.1	49.3%
FY80	Actual	212,761.8	35,322.8	172,620.9	1,081.4	76.1	48.3%
FY81	Actual	242,743.6	41,262.4	196,892.1	1,093.2	79.6	50.8%
FY82	Actual	264,162.3	45,070.0	215,835.5	1,082.1	149.2	53.3%
FY83	Actual	272,845.0	56,725.0	212,356.6	1,064.1	184.8	51.2%
FY84	Actual	287,957.0	54,731.7	230,002.0	3,008.0	215.3	46.4%
FY85	Actual	314,955.9	62,164.8	249,277.9	3,322.7	190.5	45.4%
FY86	Actual	324,704.5	63,132.6	258,065.2	3,275.8	230.9	45.2%
FY87	Actual	331,393.7	63,191.4	264,128.9	3,842.1	231.3	41.8%
FY88	Actual	340,376.7	50,486.1	287,156.0	2,581.4	153.2	42.5%
FY89	Actual	394,403.4	47,582.5	343,077.5	3,551.4	192.0	44.4%
FY90	Actual	459,019.4	56,873.5	398,284.0	3,668.1	193.8	46.5%
FY91	Actual	508,711.2	72,282.6	432,218.3	3,984.1	226.2	47.9%
FY92	Actual	543,233.5	80,435.4	459,438.2	3,157.0	202.9	48.3%
FY93	Actual	609,443.1	96,209.4	508,023.1	4,998.9	211.7	48.7%
FY94	Actual	671,419.7	107,859.3	559,166.6	4,215.4	178.4	47.7%
FY95	Actual	724,809.1	123,717.5	596,457.5	4,459.0	175.2	46.3%
FY96	Actual	770,804.9	115,072.5	650,850.0	4,708.5	173.9	48.2%
FY97	Actual	830,855.9	121,650.3	704,819.9	4,236.1	149.7	50.6%
FY98	Actual	914,961.2	19,301.9	776,192.0	4,817.3	190.1	52.4%
FY99	Projection	970,700.0	146,860.0	818,640.0	5,000.0	200.0	51.3%
FY00	Projection	1,020,000.0	152,000.0	862,600.0	5,200.0	200.0	52.0%

CORPORATE INCOME TAX

Description: (Title 63, Chapter 30, *Idaho Code*)

Collections from the corporate income tax are currently based on a flat rate of 8.0% applied to taxable income. For a listing of earlier rates refer to the following table. Beginning with tax year 1987, Idaho conformed to the changes made by the Tax Reform Act of 1986, except for the federal investment tax credit repeal. Idaho continues to allow a 3% credit that is tied to the federal definition of eligible property. Also, since September 1987, Idaho has been requiring that corporations file quarterly payments of estimated taxes. This provision is based upon federal rules and was phased in over a two-year period.

CORPORATE INCOME TAX RATE HISTORY

Tax Rat	es on th	e Portion of	Income:					
Greater	Than	\$0	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000
But Not								
More Tl	nan	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	
Tax	1931	1.0%	1.0%	2.0%	2.0%	3.0%	3.0%	4.0%
Years	1933	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.0%
	1935	1.5%	3.0%	4.0%	5.0%	6.0%	6.0%	8.0%
	1954 1	1.28%	2.55%	3.40%	4.25%	5.10%	5.10%	6.80%
	1955	7.5%	Beginning	of Single "F	lat" Tax Rate	e on all Posit	ive	
			Net Taxab	le Income				
	1957	8.0%	+ 10% Surcl	narge in 1957	and 1958.			
	1959	9.5%						
	1963	10.5%						
	1965	6.0%						
	1972	6.5%						
	1981	6.5%	+ 0.2% franc	chise tax up t	o \$250,000.			
	1983	7.7%						
	1987	8.0%						

^{1.} Same tax rate as 1954 but with the inclusion of a 15% reduction (negative surcharge).

Since its enactment in 1931, all net tax liability, interest, and penalties associated with the corporate income tax have been distributed to the General Fund. (An amount equal to 20% of the corporate income taxes collected by the State Tax Commission and deposited with the State Treasurer is required by statute to be deposited in the State Income Tax Refund Fund. Any balance exceeding \$400,000 in the State Income Tax Refund Fund at the end of the year is transferred to the General Fund on June 30.) An additional filing tax of \$10 per tax return has been assessed since 1959. Proceeds of the filing tax went to the General Fund until 1961, when their distribution was changed to the Permanent Building Fund.

Basis of Projection:

Projections of the General Fund revenue from the corporate income tax are based on a combination of econometric analysis, a simulation model of the cash-flow process under quarterly payments, and judgment. Historical corporate income tax collections are correlated with income and financial concepts found in the IEM and DRI's *Review of the U.S. Economy*.

The revenue collected in FY 1991 declined as a consequence of declines in one-time cash flow from quarterly payments. Quarterly payments have also accelerated the response time between changes in profit conditions and corporate income tax cash flow. When combined with multi-state apportionment, this yields an accelerated link between national economic conditions and Idaho corporate income tax receipts. The sharp drop in corporate income tax collections in FY 1997 is the result of the semiconductor price collapse that struck the DRAM industry in 1996.

Historical Data:

CORPORATE INCOME TAX

(\$ THOUSANDS)

				Distrib	utions		
					Perm.	Multi-	% Share
		Gross			Building	State	of Total
Year		Collections	Refunds	Gen. Fund	Fund	Tax Compact	Gen. Fund
FY70	Actual	\$11,125.8	\$1,661.1	\$10,645.6	\$52.1		10.8%
FY71	Actual	12,562.9	1,875.8	11,736.1	57.5		11.1%
FY72	Actual	12,895.0	1,924.9	12,276.3	62.7		10.0%
FY73	Actual	16,024.7	3,340.0	15,220.2	68.7		10.5%
FY74	Actual	23,076.0	4,021.6	22,161.0	74.0		12.6%
FY75	Actual	28,161.7	5,616.1	26,978.7	81.1		13.1%
FY76	Actual	31,751.8	2,215.4	29,448.9	87.6		13.0%
FY77	Actual	31,033.6	1,931.6	29,009.9	92.1		11.5%
FY78	Actual	33,326.2	2,481.8	30,802.9	41.5		10.5%
FY79	Actual	39,247.1	3,322.2	35,869.3	55.5		10.8%
FY80	Actual	42,603.9	3,133.3	39,363.2	107.4		11.0%
FY81	Actual	50,875.5	4,416.2	46,288.4	127.2	\$43.6	11.9%
FY82	Actual	45,602.0	5,416.2	40,010.6	146.4	26.3	9.9%
FY83	Actual	39,673.6	10,191.3	29,281.3	149.0	51.9	7.1%
FY84	Actual	42,226.7	15,504.7	26,535.3	116.6	70.1	5.4%
FY85	Actual	49,660.1	6,698.2	42,788.0	133.6	40.3	7.8%
FY86	Actual	50,253.2	6,900.6	43,138.4	150.2	63.9	7.6%
FY87	Actual	53,276.8	6,878.1	46,165.9	190.9	41.9	7.3%
FY88	Actual	74,230.7	10,070.2	63,906.1	160.3	94.0	9.5%
FY89	Actual	80,394.1	7,152.7	72,962.6	209.6	69.3	9.4%
FY90	Actual	82,635.9	9,914.5	72,492.0	212.3	17.2	8.5%
FY91	Actual	72,265.0	11,995.9	60,017.2	252.0	0.0	6.7%
FY92	Actual	71,443.1	13,162.9	57,971.3	194.2	114.7	6.1%
FY93	Actual	83,582.6	13,194.3	70,003.8	282.0	102.5	6.7%
FY94	Actual	102,772.3	14,870.6	87,628.2	196.8	76.7	7.5%
FY95	Actual	152,809.5	20,818.3	131,636.1	250.7	104.4	10.2%
FY96	Actual	173,392.5	21,128.3	151,979.2	246.7	38.3	11.2%
FY97	Actual	138,276.6	15,479.0	122,357.2	249.5	190.9	8.8%
FY98	Actual	136,996.0	19,301.9	117,286.4	283.7	124.0	7.9%
FY99	Projection	130,350.0	19,600.0	110,390.0	210.0	150.0	6.9%
FY00	Projection	133,700.0	20,000.0	113,300.0	250.0	150.0	6.8%

SALES TAX

Description: (Title 63, Chapter 36, *Idaho Code*)

Sales tax collections are based on a flat rate of 5% applied to the sales price or value of tangible personal property and services that are subject to sales and use taxation. The rate and distribution history is shown on the following table.

SALES TAX RATE HISTORY AND DISTRIBUTION FORMULA

(\$ THOUSANDS)

			Perm.		Alloc.	Pollut-	Public	
Effective	Tax	Gen.	Build	Rev.	to	ion	School	Misc.
Date	Rate	Fund	Fund	Sharing	Counties 7	Control	Inc. Fund	Distributions
Jul-1965	3.0%	Bal.	\$500					1,2
Jul-1968	3.0%	Bal.	\$500		5.0%			2
Jul-1969	3.0%	Bal.	\$500		10.0%			2
Jul-1970	3.0%	Bal.	\$500		15.0%			2
Jul-1971	3.0%	Bal.	\$500		20.0%			2
Jul-1975	3.0%	Bal.	\$500		20.0%			2 <u>,4</u>
Jul-1976	3.0%	Bal.	\$500		20.0%			2,4
Jul-1977	3.0%	Bal.	\$500		20.0%			2,3,4
Jul-1980	3.0%	Bal.	\$500		10.0%		10.0%	2,3,4
Mar-1983	4.0%	Bal.	\$500		10.0%		10.0%	2,3,4
Jun-1983	4.5%	Bal.	\$500		10.0%		10.0%	2,3,4
Jul-1984	4.0%	Bal.	\$500	6.25%	7.5%	\$4,800		3,4
Apr-1986	5.0%	Bal.	\$500	6.25%	7.5%	\$4,800		3,4
Jul-1987	5.0%	Bal.	\$500	7.75%	6.0%	\$4,800		3,4
Jul-1988	5.0%	Bal.	\$500	7.75%	6.0%	\$4,800		3,4, <u>5</u>
Jul-1995	5.0%	Bal.	\$500	7.75%	6.0%	\$4,800		3,4,5, 6
Jul-1998	5.0%	Bal.	\$500	7.75%	6.0%	\$4,800		3,4,5

- Amount equal to 1-mill of all assessed property values distributed to Teachers Retirement System;
 \$1,000,000 lump sum (one-time) distribution to Tax Commission.
- 2. Amount equal to the sum required to be certified by the state controller distributed to the Social Security Trust Fund.
- 3. Amount equal to the sum required to be certified by the Idaho housing agency.
- $4. \ \$1.00 \ per \ registration \ fee \ on \ vehicle \ registration \ transfers \ that \ do \ not \ involve \ sales \ tax.$
- $5. \ \ Amount certified by the \ Tax \ Commission \ as \ necessary \ to \ fund \ the \ Circuit \ Breaker.$
- 6. Amount necessary to fund Property Tax Relief.
- 7. For the period March 1983 through June 1984 this percentage was applied only to the 3% "base" sales tax rate.

Sales tax funds must be allocated to the Idaho Housing and Finance Association if, within 60 days of the close of the fiscal year, the Chairman of the Housing and Finance Association Board of Commissioners certifies to the State Tax Commission that a deficiency exists in the agency's Capital Reserve Fund. No such certification has been made in any year, nor is one anticipated for the current fiscal year. Beginning in 1996, this provision is limited to no more than \$89 million. Also, it only applies to bonds issued prior to 1996. In effect, this provision has been repealed for bonds issued on or after January 1996.

Basis of Projection:

The projections of FY 1999 and FY 2000 net General Fund accruals from the sales tax are based on econometric analysis and judgment. Historic monthly gross collections data are first adjusted for changes in the tax rate and any major collection anomalies. The adjusted data is then related to Idaho income and construction data using econometric analysis. Income forecasts from the *Idaho Economic Forecast* are then used to forecast gross sales tax collections. Historical refund levels and the current distribution formula are used to translate gross collections to net General Fund accruals. FY 1999 collections and accruals are also extrapolated from receipts-to-date, based on historical collection patterns. Judgmental considerations include the results of ongoing revenue monitoring and the expected impacts of new compliance and audit activities.

Historical Data:

SALES TAX
(\$ THOUSANDS)

			Distributions									
					Perm.		Alloc.	Pollut-		Property		% Share
		Gross			Building	Rev.	То	ion	Circuit	Tax	Misc.	of Total
Year		Collections		Gen. Fund	Fund	Sharing	Counties	Control	Breaker	Relief	Dist.	Gen. Fund
FY70	Actual	\$41,678.2	\$61.6	\$33,055.0	\$500.0		\$4,161.7				\$3,077.7	33.6%
FY71	Actual	45,368.6	101.9	34,076.7	500.0		6,790.0				3,900.0 1,2	32.2%
FY72	Actual	51,704.1	81.1	36,967.1	500.0		10,324.6				3,831.3 1,2	30.1%
FY73	Actual	60,999.6	70.3	43,281.3	500.0		12,186.1				4,961.9 1,2	30.0%
FY74	Actual	69,833.3	340.7	49,250.0	500.0		13,898.5				5,844.1 1,2	
FY75	Actual	79,108.7	100.4	57,022.8	500.0		15,801.7				5,683.8	27.8%
FY76	Actual	88,874.0	137.5	63,650.6	500.0		17,747.3				6,838.6	28.1%
FY77	Actual	103,859.6	219.2	73,594.5	500.0		20,728.1				8,817.8	29.2%
FY78	Actual	118,866.2	157.0	84,107.4	500.0		23,741.8				10,360.0	28.6%
FY79	Actual	129,906.4	205.9	91,463.6	500.0		25,940.1				11,796.8	27.6%
FY80	Actual	137,113.9	264.5	95,984.6	500.0		27,369.9				12,994.9	26.9%
FY81	Actual	145,008.0	220.5	97,679.3	500.0		14,476.0				32,132.2 1,2	25.2%
FY82	Actual	146,206.9	311.8	98,720.2	500.0		14,607.4				32,067.5 1,2	24.4%
FY83	Actual	165,441.1	181.2	115,407.0	500.0		15,266.3				34,086.6 1,2	27.8%
FY84	Actual	241,838.4	596.2	188,422.1	500.0		16,192.2				36,127.9 1,2	38.0%
FY85	Actual	238,544.3	449.7	200,026.6	500.0	\$14,876.1	17,851.5	\$4,800.0			40.4 3	36.4%
FY86	Actual	250,490.1	516.8	211,564.2	500.0	15,036.7	18,044.1	4,800.0			28.3 3	37.0%
FY87	Actual	297,892.0	538.4	259,358.6	500.0	14,853.3	17,827.1	4,800.0			14.6 3	41.0%
FY88	Actual	311,382.5	672.5	258,762.1	500.0	24,084.5	18,637.1	4,800.0	\$3,890.1		36.2	38.3%
FY89	Actual	346,682.3	882.4	288,780.3	500.0	26,785.4	20,737.1	4,800.0	4,171.7		25.4 3	37.4%
FY90	Actual	383,096.0	1,664.0	319,290.7	500.0	29,540.7	22,870.2	4,800.0	4,335.5		94.9 ³	37.3%
FY91	Actual	404,146.4	3,403.1	335,739.5	500.0	31,036.1	24,028.3	4,800.0	4,491.1		148.3 3	37.2%
FY92	Actual	435,715.5	1,799.1	364,323.0	500.0	33,612.2	26,022.6	4,800.0	4,606.1		52.5 ³	38.3%
FY93	Actual	481,357.9	1,163.9	402,819.5	500.0	37,195.6	28,796.9	4,800.0	6,031.2		50.8 3	38.6%
FY94	Actual	541,503.6	1,739.0	452,684.8	500.0	41,789.3	32,353.2	4,800.0	7,504.3		132.9 3	38.6%
FY95	Actual	575,751.5	1,767.4	481,568.8	500.0	44,455.1	34,435.8	4,800.0	8,241.1		-16.6 ³	37.4%
FY96	Actual	602,573.0	2,114.2	462,999.7	500.0	46,554.3	36,023.2	4,800.0	8,807.0	40,757.1	17.6 3	34.3%
FY97	Actual	624,631.8	2,109.4	476,726.1	500.0	48,240.6	37,347.6	4,800.0	9,609.0	45,238.4	60.7 3	34.3%
FY98	Actual	655,182.6	2,023.6	496,807.8	500.0	50,572.4	39,152.8	4,800.0	10,331.1	50,400.4	594.5 ³	33.5%
FY99	Projected	690,400.0	1,949.0	577,600.0	500.0	53,355.0	41,307.1	4,800.0	10,889.0	0.0	0.0	36.2%
FY00	Projected	721,300.0	1,995.7	603,200.0	500.0	55,746.1	43,158.3	4,800.0	11,900.0	0.0	0.0	36.4%

Please Note: The column titled "Misc. Dist." is used to display other distributions as noted below.

^{1.} Social Security Trust.

^{2.} Public School Income.

^{3.} Multi-State Tax Compact.

CIGARETTE TAX

Description: (Title 63, Chapter 25, *Idaho Code*)

Cigarette tax collections are based on a rate of one and four-tenths of a cent (1.4 cent) per cigarette or 28 cents per package of 20 cigarettes. Five cents per package of cigarettes are distributed to the Public School Income Fund and five cents are earmarked for County Juvenile Probation Services. Of the remaining 18 cents per package of cigarettes, 43.3% is distributed to the Permanent Building Fund; 6.7% is distributed to the Water Pollution Control Fund; 1% (to a maximum of the legislative appropriation) is distributed to the Central Cancer Registry Fund; 2.5% is distributed to the Cancer Control Fund; and the remainder is distributed to the General Fund.

CIGARETTE TAX RATE AND DISTRIBUTION HISTORY

				Dist	tribution of Re	ts as Percent of	or \$ per Ciga	rette	
	Rate	Distribution	Distribution to		Ce	ntral	Perm	Water	Cancer
Effective	Per	to PSIF	Juv. Prob. Svcs.	Gen.	Ca	ncer	Build.	Poll.	Control
Date	Cigarette	Per Cigarette	Per Cigarette	Fund	Reg.	Fund ²	Fund	Control	Fund
May-1945	\$0.00100			100.0%					
Jul-1947	0.00150			100.0%					
Jul-1955	0.00200			100.0%					
Jul-1959	0.00250			100.0%					
Jul-1961	0.00300			\$0.00250			\$0.00050		
Jul-1963	0.00350			\$0.00300			0.00050		
Jul-1972	0.00455			\$0.00350	\$0.00005	to \$40,000	0.00050	\$0.00050	
Jul-1974	0.00455			Balance	1.099%	to \$40,000	10.989%	10.989%	
Jul-1975	0.00455			Balance	1.099%	to \$55,000	10.989%	10.989%	
Jul-1978	0.00455			Balance	1.099%	to \$70,000	10.989%	10.989%	
Jul-1979	0.00455			Balance	1.099%	to \$70,000	10.989%	10.989%	3.645%
Jul-1980	0.00455			Balance	1.099%	to \$85,000	10.989%	10.989%	3.645%
Jul-1982	0.00455			Balance	1.099%	to \$95,000	10.989%	10.989%	3.645%
Jul-1984	0.00455			Balance	1.099%	to \$100,000	10.989%	10.989%	3.645%
Mar-1987	0.00900			Balance ¹	1.099%	to \$100,000	10.989%	10.989%	3.645%
Jul-1987	0.00900			Balance	1.000%	to \$100,000	43.300%	6.700%	2.500%
Jul-1989	0.00900			Balance	1.000%	to \$110,000	43.300%	6.700%	2.500%
Jul-1994	0.01400	\$0.00500		Balance	1.000%	3	43.300%	6.700%	2.500%
Mar-1995	0.01400	0.00250	\$0.00250	Balance	1.000%	3	43.300%	6.700%	2.500%

 $^{1.\} From\ March\ 1,\ 1987\ to\ July\ 1,\ 1987\ the\ additional\ \$.00445\ was\ {\color{red}\underline{all}}\ distributed\ to\ the\ General\ Fund.$

 $^{2. \ \} The \ Central \ Cancer \ Registry \ Fund \ receives \ the \ lesser \ of \ its \ percentage \ or \ its \ dollar \ cap.$

^{3.} On July 1, 1994 the \$110,000 limit was replaced with a limit not to exceed the legislative appropriation

Basis of Projection:

The projections of General Fund revenues from this source for FY 1999 and FY 2000 are based on a subjective assessment of recent collections history, Idaho population growth, and the trend toward decreased per capita cigarette consumption.

Historical Data:

CIGARETTE TAX (\$ THOUSANDS)

						Distribut	ions				
								Central	Public	County	
				Perm.		Water	Cancer	Cancer	School	Juvenile	% Share
		Gross		Building		Pollution	Control	Registry	Endow.	Probation	of Total
Year		Collections	Gen. Fund	Fund	Refunds	Fund	Fund	Fund	Fund	Fund	Gen. Fund
FY70	Actual	\$4,885.9	\$4,188.0	\$697.9							4.3%
FY71	Actual	5,173.4	4,434.4	739.0							4.2%
FY72	Actual	6,136.8	5,260.2	876.6							4.3%
FY73	Actual	8,074.5	6,248.4	867.1		\$919.1		\$40.0			4.3%
FY74	Actual	8,365.7	6,475.7	925.0		925.0		40.0			3.7%
FY75	Actual	8,544.4	6,599.6	939.1	\$26.6	939.1		40.0			3.2%
FY76	Actual	8,866.2	6,868.8	959.9	22.5	959.9		55.0			3.0%
FY77	Actual	8,980.5	6,926.6	983.8	31.3	983.8		55.0			2.7%
FY78	Actual	9,098.5	7,010.6	995.0	43.0	995.0		55.0			2.4%
FY79	Actual	8,919.2	6,841.5	974.2	59.2	974.2		70.0			2.1%
FY80	Actual	9,009.1	6,580.3	981.9	69.3	981.9	\$325.7	70.0			1.8%
FY81	Actual	9,331.1	6,802.3	1,017.8	70.7	1,017.8	337.6	85.0			1.8%
FY82	Actual	9,244.3	6,717.1	1,004.7	99.5	1,004.7	333.2	85.0			1.7%
FY83	Actual	9,288.9	6,746.1	1,010.8	91.0	1,010.8	335.3	95.0			1.6%
FY84	Actual	8,989.8	6,523.7	978.0	90.8	978.0	324.4	95.0			1.3%
FY85	Actual	8,854.8	6,405.2	960.1	114.9	960.1	318.5	96.0			1.2%
FY86	Actual	8,536.9	6,150.2	922.3	143.9	922.3	305.9	92.2			1.1%
FY87	Actual	10,552.8	8,193.4	911.8	142.2	911.8	302.4	91.2			1.3%
FY88	Actual	15,033.9	6,921.0	6,399.8	253.8	989.8	369.5	100.0			1.0%
FY89	Actual	14,782.8	6,792.8	6,283.4	271.6	972.3	362.8	100.0			0.9%
FY90	Actual	12,738.7	5,884.3	5,464.3	119.1	845.5	315.5	110.0			0.7%
FY91	Actual	14,696.2	6,863.4	6,356.8	15.4	983.6	367.0	110.0			0.8%
FY92	Actual	15,205.6	7,072.3	6,547.2	85.0	1,013.1	378.0	110.0			0.7%
FY93	Actual	15,029.6	6,995.1	6,490.5	40.0	1,004.3	374.7	125.0			0.7%
FY94	Actual	16,394.3	7,605.6	7,047.1	119.4	1,090.4	406.9	125.0			0.6%
FY95	Actual	23,270.6	7,245.6	6,733.5	63.8	1,041.9	388.8	141.0	\$6,537.6	\$1,118.4	0.6%
FY96	Actual	25,228.0	7,476.5	6,944.0	281.9	1,074.5	400.9	141.0	4,454.6	4,454.6	0.6%
FY97	Actual	25,053.3	7,486.5	6,953.0	74.7	1,075.9	401.4	141.0	4,460.4	4,460.4	0.5%
FY98	Actual	24,951.0	7,476.9	6,944.3	3.7	1,074.5	400.9	141.0	4,454.8	4,454.8	0.5%
FY99	Projection	24,532.5	7,300.0	6,797.3	113.2	1,051.8	392.5	156.6	4,360.6	4,360.6	0.5%
FY00	Projection	23,550.0	7,000.0	6,523.8	113.2	1,009.5	376.7	156.6	4,185.1	4,185.1	0.4%

BEER TAX

Description: (Title 23, Chapter 10, *Idaho Code*)

A total tax of \$4.65 per 31-gallon barrel, or its equivalent, is levied on beer sold in Idaho. Of the total, 20% is distributed to the Alcoholism Treatment Fund, 33% to the Permanent Building Fund, and the remainder (47%) to the General Fund. Historical rates of the tax and its distribution are listed below.

BEER TAX RATE HISTORY AND DISTRIBUTION MECHANISM

	Rate	
Effective	Per 31 Gal.	
Date	Barrel	Distribution Mechanism
Mar-1935	\$1.55	50% to General Fund (GF); 50% to Public School Income Fund.
Jul-1939	\$1.55	100% to GF.
Jul-1947	\$3.10	100% to GF.
Jul-1961	\$4.65	\$3.10 to GF; \$1.55 to Permanent Building Fund (PBF).
Jul-1980	\$4.65	\$2.17 to GF; \$1.55 to PBF; \$.93 to Alcoholism Treatment Fund (ATF).
Jul-1986	\$4.65	47% to GF; 33% to PBF; 20% to ATF.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1999 and FY 2000 are based on an assessment of recent collections, the slow decline in per capita beer consumption, and Idaho population growth.

Historical Data:

BEER TAX (\$ THOUSANDS)

				Distribu	itions		
				Perm.		Alcoholism	% Share
		Gross		Building		Treatment	of Total
Year		Collections	Gen. Fund	Fund	Refunds	Fund	Gen. Fund
FY70	Actual	\$1,989.6	\$1,326.5	\$663.1			1.3%
FY71	Actual	2,097.3	1,398.3	699.1			1.3%
FY72	Actual	2,316.1	1,544.1	772.0			1.3%
FY73	Actual	2,564.2	1,709.6	854.5			1.2%
FY74	Actual	2,690.0	1,793.4	896.5			1.0%
FY75	Actual	2,938.3	1,959.0	979.3			1.0%
FY76	Actual	3,062.9	2,023.2	1,011.6	\$28.1		0.9%
FY77	Actual	3,241.1	2,144.3	1,072.0	24.8		0.9%
FY78	Actual	3,326.7	2,200.7	1,100.3	25.7		0.7%
FY79	Actual	3,466.0	2,291.6	1,145.7	28.6		0.7%
FY80	Actual	3,516.2	2,326.4	1,163.2	26.6		0.7%
FY81	Actual	3,215.4	1,498.8	1,068.9	4.7	\$642.9	0.4%
FY82	Actual	3,574.6	1,669.0	1,190.5	0.9	714.3	0.4%
FY83	Actual	3,532.0	1,650.3	1,176.0	0.0	705.6	0.4%
FY84	Actual	3,442.5	1,607.0	1,147.1	0.0	688.3	0.3%
FY85	Actual	3,422.2	1,597.5	1,140.1	0.5	684.1	0.3%
FY86	Actual	3,312.6	1,545.5	1,103.5	1.6	662.1	0.3%
FY87	Actual	3,311.6	1,554.9	1,091.8	3.2	661.7	0.2%
FY88	Actual	3,251.7	1,527.6	1,072.6	1.4	650.0	0.2%
FY89	Actual	3,244.5	1,509.9	1,060.1	31.9	642.5	0.2%
FY90	Actual	3,304.6	1,552.1	1,089.8	2.2	660.5	0.2%
FY91	Actual	3,414.7	1,602.5	1,125.2	5.1	681.9	0.2%
FY92	Actual	3,525.6	1,656.9	1,163.4	0.3	705.1	0.2%
FY93	Actual	3,621.6	1,701.6	1,194.7	1.2	724.1	0.2%
FY94	Actual	3,643.1	1,711.8	1,201.9	1.0	728.4	0.1%
FY95	Actual	3,521.7	1,654.1	1,161.4	2.3	703.9	0.1%
FY96	Actual	3,455.6	1,620.9	1,138.1	7.0	689.7	0.1%
FY97	Actual	3,468.6	1,629.9	1,144.4	0.8	693.6	0.1%
FY98	Actual	3,445.8	1,619.4	1,137.0	0.2	689.1	0.1%
FY99	Projection	3,512.9	1,650.0	1,158.5	2.2	702.1	0.1%
FY00	Projection	3,566.1	1,675.0	1,176.1	2.2	712.8	0.1%

WINE TAX

Description: (Title 23, Chapter 13, *Idaho Code*)

A tax of \$0.45 per gallon is levied on wine and beer containing more than 4% alcohol sold in Idaho. Of the total, 12% is distributed to goes to the Alcoholism Treatment Fund, 5% to the Idaho Grape Growers and Wine Producers Commission Fund, and the remainder (83%) to the General Fund. Historical rates of the tax and its distribution are listed in the table below.

WINE TAX RATE HISTORY AND DISTRIBUTION MECHANISM

	Rate	State	
Effective	Per	of	
Date	Gallon	Origin	Distribution Mechanism
Jul-1971	\$0.45	All	100% to General Fund (GF).
Jul-1980	\$0.45	All	\$0.40 to GF; \$0.05 to Alcoholism Treatment Fund (ATF).
Jul-1984	\$0.20	Idaho	\$0.15 to GF; \$0.05 to ATF.
	\$0.45	Non-Idaho	\$0.40 to GF; \$0.05 to ATF.
Jul-1986	\$0.20	Idaho	88% to GF; 12% to ATF.
	\$0.45	Non-Idaho	88% to GF; 12% to ATF.
Jul-1988	\$0.45	All	88% to GF; 12% to ATF.
Jul-1994	\$0.45	All	83% to GF; 12% to ATF; 5% to Idaho Grape Growers & Wine Producers Commission Fund.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1999 and FY 2000 are based on a subjective assessment of recent collection history, the trend toward lower wine consumption per capita, the rising popularity of microbrewery beers, and Idaho population growth.

Historical Data:

WINE TAX
(\$ THOUSANDS)

				Г	Distributions		
					Alcoholism	ID Grape Growers	% Share
		Gross			Treatment	& Wine Producers	of Total
Year		Collections	Gen. Fund	Refunds	Fund	Commission	Gen. Fund
FY70	Actual	\$0.0	\$0.0				0.0%
FY71	Actual	0.0	0.0				0.0%
FY72	Actual	394.9	394.9				0.3%
FY73	Actual	437.1	437.1				0.3%
FY74	Actual	425.5	425.5				0.2%
FY75	Actual	457.7	457.7				0.2%
FY76	Actual	488.5	470.7	\$17.8			0.2%
FY77	Actual	502.3	485.6	16.7			0.2%
FY78	Actual	591.6	573.0	18.6			0.2%
FY79	Actual	652.5	632.1	20.4			0.2%
FY80	Actual	657.6	629.5	28.1			0.2%
FY81	Actual	609.0	526.9	14.6	\$67.5		0.1%
FY82	Actual	759.1	675.3	0.0	83.8		0.2%
FY83	Actual	778.1	692.2	0.0	85.9		0.2%
FY84	Actual	837.5	744.7	0.0	92.9		0.2%
FY85	Actual	872.4	767.0	6.2	99.2		0.1%
FY86	Actual	955.2	844.7	0.9	109.6		0.1%
FY87	Actual	985.4	862.1	5.7	117.6		0.1%
FY88	Actual	989.1	866.7	4.2	118.2		0.1%
FY89	Actual	905.9	788.7	9.6	107.6		0.1%
FY90	Actual	880.7	771.3	4.2	105.2		0.1%
FY91	Actual	853.2	750.1	0.8	102.3		0.1%
FY92	Actual	907.1	753.1	51.3	102.7		0.1%
FY93	Actual	856.4	750.5	3.5	102.3		0.1%
FY94	Actual	918.4	806.2	2.2	109.9		0.1%
FY95	Actual	1,375.5	1,140.5	0.7	165.0	\$69.3	0.1%
FY96	Actual	1,840.4	1,524.1	4.2	220.3	91.8	0.1%
FY97	Actual	2,005.4	1,663.7	1.0	240.5	100.2	0.1%
FY98	Actual	2,170.7	1,800.8	1.0	260.4	108.5	0.1%
FY99	Projection	2,170.9	1,800.0	2.2	260.2	108.4	0.1%
FY00	Projection	2,231.1	1,850.0	2.2	267.5	111.4	0.1%

LIQUOR SURCHARGE

Description: (Title 23, Chapters 2 and 4, *Idaho Code*)

Revenue is derived from a 15% surcharge on the retail price of liquor sold by the State Liquor Dispensary. Idaho Law provides for a transfer of \$4.945 million annually to the General Fund. Other dedicated moneys from the liquor surcharge include: \$1.2 million to the Alcoholism Treatment Fund, \$0.3 million to the Community College Fund, \$1.2 million to the Public School Income Fund, and \$0.65 million to the Cooperative Welfare Fund. Of the balance of the distribution, 40% is distributed to counties and the remaining 60% is distributed to cities.

Historical Data:

LIQUOR SURCHARGE

(\$ THOUSANDS)

					Γ	Distributions				
				Alcohol	Community	Coop.	Public	Budget		% Share
		Gross	Gen.	Treat.	College	Welfare	School	Reserve	Cities &	of Total
Year		Distribu.	Fund	Fund	Fund	Fund	Fund	Fund	Counties	Gen. Fund
FY70	Actual	\$7,116.0	\$1,910.4							1.9%
FY71	Actual	8,228.1	2,005.5							1.9%
FY72	Actual	8,686.9	2,401.0							2.0%
FY73	Actual	10,497.1	2,814.7							2.0%
FY74	Actual	10,739.6	2,961.7							1.7%
FY75	Actual	9,445.4	2,517.4							1.2%
FY76	Actual	11,371.8	2,786.1		This	area intentic	onally left bl	lank.		1.2%
FY77	Actual	10,569.5	2,883.4		For more	e informatio	n, please cal	ll DFM.		1.1%
FY78	Actual	11,241.4	3,192.7							1.1%
FY79	Actual	12,138.3	3,369.9							1.0%
FY80	Actual	13,490.0	3,529.6							1.0%
FY81	Actual	14,378.7	3,741.8							1.0%
FY82	Actual	12,914.8	3,948.1							1.0%
FY83	Actual	15,487.2	3,700.0							0.9%
FY84	Actual	15,170.2	3,820.0							0.8%
FY85	Actual	12,780.1	4,945.0	\$1,200.0	\$300.0	\$650.0	\$1,200.0		\$4,485.1	0.9%
FY86	Actual	12,294.5	4,945.0	1,200.0	300.0	650.0	1,200.0		3,999.5	0.9%
FY87	Actual	12,294.8	4,945.0	1,200.0	300.0	650.0	1,200.0		3,999.8	0.8%
FY88	Actual	10,795.0	4,945.0	1,200.0	300.0	650.0	1,200.0		2,500.0	0.7%
FY89	Actual	11,377.9	4,945.0	1,200.0	300.0	650.0	1,200.0		3,082.9	0.6%
FY90	Actual	12,425.0	4,945.0	1,200.0	300.0	650.0	1,200.0		4,130.0	0.6%
FY91	Actual	12,268.3	4,945.0	1,200.0	300.0	650.0	1,200.0		3,973.3	0.5%
FY92	Actual	12,999.1	4,945.0	1,200.0	300.0	650.0	1,200.0		4,704.1	0.5%
FY93	Actual	12,802.8	4,945.0	1,200.0	300.0	650.0	1,200.0		4,507.8	0.5%
FY94	Actual	26,149.3	5,365.0	1,200.0	300.0	650.0	1,200.0	\$6,255.8	11,178.5	0.4%
FY95	Actual	18,449.3	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	10,154.3	0.4%
FY96	Actual	16,578.1	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	8,283.1	0.4%
FY97	Actual	17,417.3	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	9,122.3	0.4%
FY98	Actual	16,605.7	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	8,310.7	0.3%
FY99	Projection	16,855.0	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	8,560.0	0.3%
FY00	Projection	17,111.8	4,945.0	1,200.0	300.0	650.0	1,200.0	0.0	8,816.8	0.3%

KILOWATT-HOUR TAX

Description: (Title 63, Chapter 27, *Idaho Code*)

Revenue is derived from a one-half mill (\$0.0005) per kilowatt-hour tax on electricity generated in the state of Idaho by water power. Power used by industrial consumers and for irrigation is exempt from this tax. All collections accrue to the General Fund. This tax has been levied since July 1, 1931.

Basis of Projection:

Kilowatt-hour tax receipts for FY 1999 and FY 2000 are based on an assessment of recent collection history in comparison to river flows, water availability, and changes in power generation capacity.

Historical Data:

KILOWATT-HOUR TAX

(\$ THOUSANDS)

			Distrib	utions	
					% Share
		Gross			of Total
Year		Collections	Refunds	Gen. Fund	Gen. Fund
FY70	Actual	\$403.3		\$403.3	0.4%
FY71	Actual	575.0		575.0	0.5%
FY72	Actual	550.3		550.3	0.4%
FY73	Actual	826.1		826.1	0.6%
FY74	Actual	592.8		592.8	0.3%
FY75	Actual	408.1		408.1	0.2%
FY76	Actual	1,255.7	\$88.4	1,167.3	0.5%
FY77	Actual	597.1	0.1	597.0	0.2%
FY78	Actual	510.4	0.0	510.4	0.2%
FY79	Actual	1,651.8	0.0	1,651.8	0.5%
FY80	Actual	1,404.9	0.0	1,404.9	0.4%
FY81	Actual	1,607.5	0.0	1,607.5	0.4%
FY82	Actual	1,755.6	0.0	1,755.6	0.4%
FY83	Actual	2,176.9	0.0	2,176.9	0.5%
FY84	Actual	2,412.7	0.0	2,412.7	0.5%
FY85	Actual	2,270.6	0.0	2,270.6	0.4%
FY86	Actual	2,100.9	0.0	2,100.9	0.4%
FY87	Actual	1,819.2	0.0	1,819.2	0.3%
FY88	Actual	1,487.0	0.0	1,487.0	0.2%
FY89	Actual	1,593.6	0.0	1,593.6	0.2%
FY90	Actual	1,677.0	0.0	1,677.0	0.2%
FY91	Actual	1,783.2	0.0	1,783.2	0.2%
FY92	Actual	1,615.8	5.3	1,610.5	0.2%
FY93	Actual	1,478.7	29.4	1,449.3	0.1%
FY94	Actual	2,125.0	37.0	2,088.0	0.2%
FY95	Actual	1,686.5	0.0	1,686.5	0.1%
FY96	Actual	2,947.0	57.1	2,889.9	0.2%
FY97	Actual	2,973.6	0.0	2,973.6	0.2%
FY98	Actual	3,239.9	0.0	3,239.9	0.2%
FY99	Projection	3,000.0	0.0	3,000.0	0.2%
FY00	Projection	2,800.0	0.0	2,800.0	0.2%

MINE LICENSE TAX

Description: (Title 47, Chapter 12, *Idaho Code*)

Revenue is derived from a 2% "profit" tax on Idaho mining operations. All collections accrue to the General Fund. This tax has been levied since 1935. It was initially set at 3%, then was lowered to 2% in 1972 where it has remained since.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1999 and FY 2000 are based on a subjective assessment of recent collections history, the current and future levels of employment in mining, and relative minerals prices.

Historical Data:

MINE LICENSE TAX

(\$ THOUSANDS)

			Distrib	outions	
					% Share
		Gross			of Total
Year		Collections	Refunds	Gen. Fund	Gen. Fund
FY70	Actual	\$264.1		\$264.1	0.3%
FY71	Actual	268.2		268.2	0.3%
FY72	Actual	152.9		152.9	0.1%
FY73	Actual	73.9		73.9	0.1%
FY74	Actual	192.8		192.8	0.1%
FY75	Actual	482.0		482.0	0.2%
FY76	Actual	413.6	\$8.1	405.5	0.2%
FY77	Actual	203.2	0.4	202.8	0.1%
FY78	Actual	273.5	4.3	269.2	0.1%
FY79	Actual	552.3	1.4	551.0	0.2%
FY80	Actual	1,905.9	0.4	1,905.5	0.5%
FY81	Actual	2,145.2	27.6	2,117.6	0.5%
FY82	Actual	2,449.4	4.7	2,444.7	0.6%
FY83	Actual	687.6	14.3	673.3	0.2%
FY84	Actual	1,106.2	0.9	1,105.3	0.2%
FY85	Actual	676.1	90.9	585.2	0.1%
FY86	Actual	380.6	12.0	368.7	0.1%
FY87	Actual	283.5	0.3	283.2	0.0%
FY88	Actual	570.8	0.0	570.8	0.1%
FY89	Actual	215.8	2.6	213.2	0.0%
FY90	Actual	278.0	25.0	253.0	0.0%
FY91	Actual	471.8	1.0	470.9	0.1%
FY92	Actual	588.7	3.1	585.7	0.1%
FY93	Actual	441.7	331.8	109.9	0.0%
FY94	Actual	487.6	14.4	473.2	0.0%
FY95	Actual	291.0	1.2	289.9	0.0%
FY96	Actual	800.8	0.0	800.8	0.1%
FY97	Actual	764.7	101.4	663.4	0.0%
FY98	Actual	1,101.3	140.8	960.5	0.1%
FY99	Projection	507.0	7.0	500.0	0.0%
FY00	Projection	507.0	7.0	500.0	0.0%

STATE TREASURER

Description: (Title 67, Chapter 12, *Idaho Code*)

State Treasurer's income is derived from interest on investments of idle state funds. Investments are made in time certificates of deposit, U.S. Treasury bills, and repurchase agreements. The yield from these investments is related to short-term interest rates, coupled with the amount of fund balances available for the Treasurer to invest. All net interest earnings, except those derived from the trust and agency funds, accrue to the General Fund. Beginning in fiscal year 1999, all interest earned on the Permanent Building Fund balance will be retained by that fund instead of being paid to the General Fund.

For historical data see the "Miscellaneous Revenues" table on page 45.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1999 and FY 2000 are based on an assessment of the State Treasurer's fund balances, forecasts of interest rates, and agency expectations. The FY 1999 projection includes \$4.8 million of net interest earnings by the Treasurer from the issuance of tax anticipation notes. The FY 2000 projection does not include tax anticipation note interest earnings.

JUDICIAL BRANCH

Description: (Sections 1-402 and 19-4705, *Idaho Code*)

Revenues are derived from court fees and from 10% of all fines and forfeitures collected pursuant to the judgment of any court of the state, with the exception of Fish and Game law violations, of which 2.5% goes to the General Fund. Certain court fees were raised in FY 1997.

For historical data see the "Miscellaneous Revenues" table on page 45.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1999 and FY 2000 are based on an assessment of recent collection history, fee changes, and Idaho population growth.

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DEPARTMENT OF INSURANCE

Description: (Title 41, Chapters 4, 34, and 39, *Idaho Code*)

Idaho's insurance premium tax is applied at a rate of 2.75% of net direct insurance premiums written in the state, except for title insurance, which is taxed at the rate of 1.5%. Property and casualty insurers with 25% or more of their total assets and life insurers with 25% or more of their total life reserves invested in qualifying Idaho investments may qualify for a reduced tax rate of 1.4%.

Effective July 1, 1997, as a result of legislation changing Chapter 39, all health maintenance organizations became managed care organizations and under Idaho law beginning January 1, 1998, will pay the 2.75% premium tax rate rather than the \$.04 per subscriber head tax.

Premium taxes are collected on a quarterly prepayment basis based upon a percentage of the previous year's taxes as reported on the company's filed premium tax return. Prepayment percentages are 60% in June, 20% in September, and 15% in December, with the balance due with the filing in March. The fire insurance premium tax collections are dedicated to the Firemen's Retirement Fund.

The Department of Insurance collects a variety of filing and license fees. These revenues are dedicated to the Insurance Administration Fund to fund operations of the Department of Insurance. At the beginning of each succeeding fiscal year, any balance in the Insurance Administration Fund exceeding the current year appropriation by 25% is transferred to the General Fund.

For historical data see the "Miscellaneous Revenues" table on page 45.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1999 and FY 2000 are based on forecasts of insurance premium growth, trends in insurance rates and coverage, agency records of insurers qualifying for the lower rate, and company insolvencies that result in credits taken for guaranty association assessments. These variables and parameters are then run through a simulation model of the cash-flow process to capture the effects on prepayment, filing reconciliation collections, and refunds. FY 1998 collections reflect the revenue impact of managed care organizations changing from payment of the \$.04 head tax to tax payment based on the premium tax rate.

DEPARTMENT OF LAW ENFORCEMENT (LIQUOR LAW ENFORCEMENT)

Description: (Title 23, Chapters 9, 10, and 13, *Idaho Code*)

Revenue is derived from the sale of alcoholic beverage licenses to retailers, wholesalers, and manufacturers at a standard fee.

For historical data see the "Miscellaneous Revenues" table on page 45.

Basis of Projection:

The projections of General Fund revenue from this source for FY 1999 and FY 2000 are based on a subjective assessment of recent collection history and Idaho population growth.

UNCLAIMED PROPERTY

Description: (Title 14, Chapter 5, *Idaho Code*)

Unclaimed property from bank accounts, safe deposit boxes, travelers' checks, life insurance policies, utility deposits, and the like accrue to the state after certain holding periods. Beginning in FY 1983, amounts in the Unclaimed Property Fund exceeding \$100,000 were transferred to the General Fund. Prior to that time, the excess was transferred to the Permanent Building Fund. Beginning in FY 1995, the Tax Commission transferred amounts in the Unclaimed Property Fund exceeding \$250,000 to the General Fund.

For historical data see the "Miscellaneous Revenues" table on page 45.

Basis of Projection:

Projections of unclaimed property are based on a subjective assessment of recent collection history.

OTHER DEPARTMENTS AND TRANSFERS

The primary revenue sources for this miscellaneous category are receipts from the Department of Finance, Department of Lands, Department of Administration, Secretary of State, and Department of Agriculture. Other agencies provide lesser amounts on a sporadic basis. Environmental violation penalties assessed by the Division of Environmental Quality are an irregular income source. The annual transfers to the General Fund from the Public Utilities Commission and from the Federal Power Act (through the State Treasurer) are also included. However, the unpredictable nature of other items included in this source is evidenced by the collection history.

For historical data see the "Miscellaneous Revenues" table on page 45.

Basis of Projection:

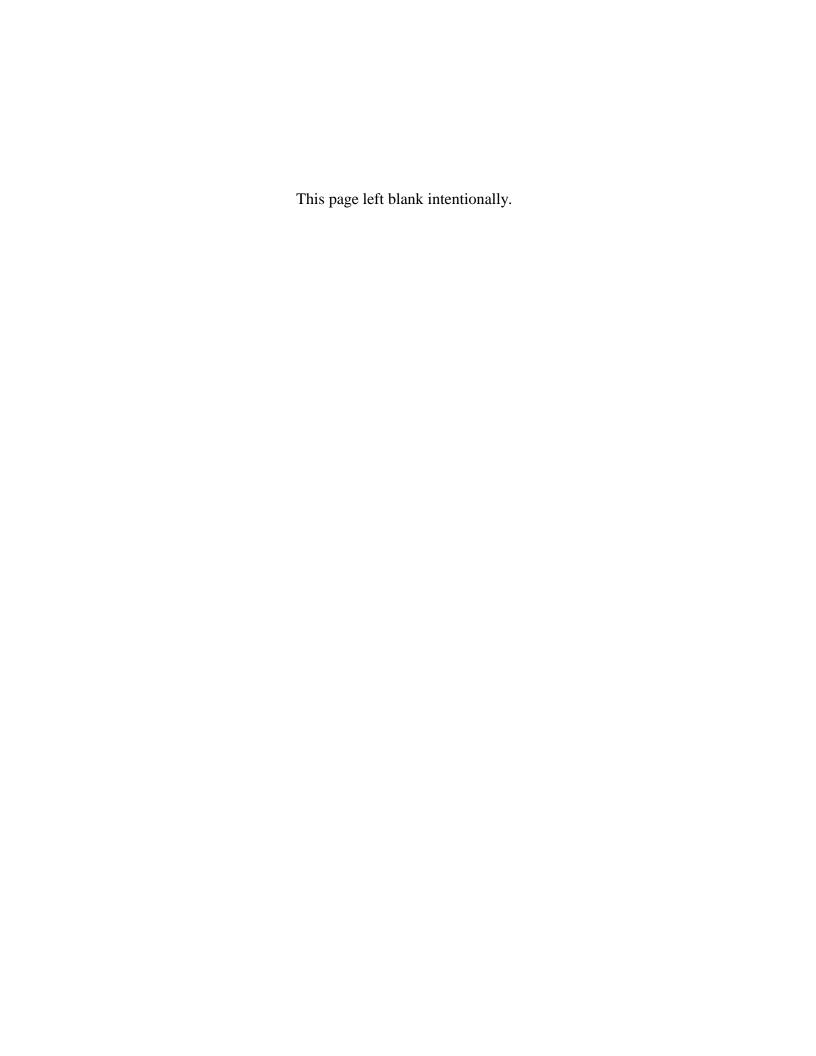
The projections of miscellaneous General Fund revenues for FY 1999 and FY 2000 are based on a subjective assessment of recent collection history and expected transfers.

MISCELLANEOUS REVENUES

(\$THOUSANDS)

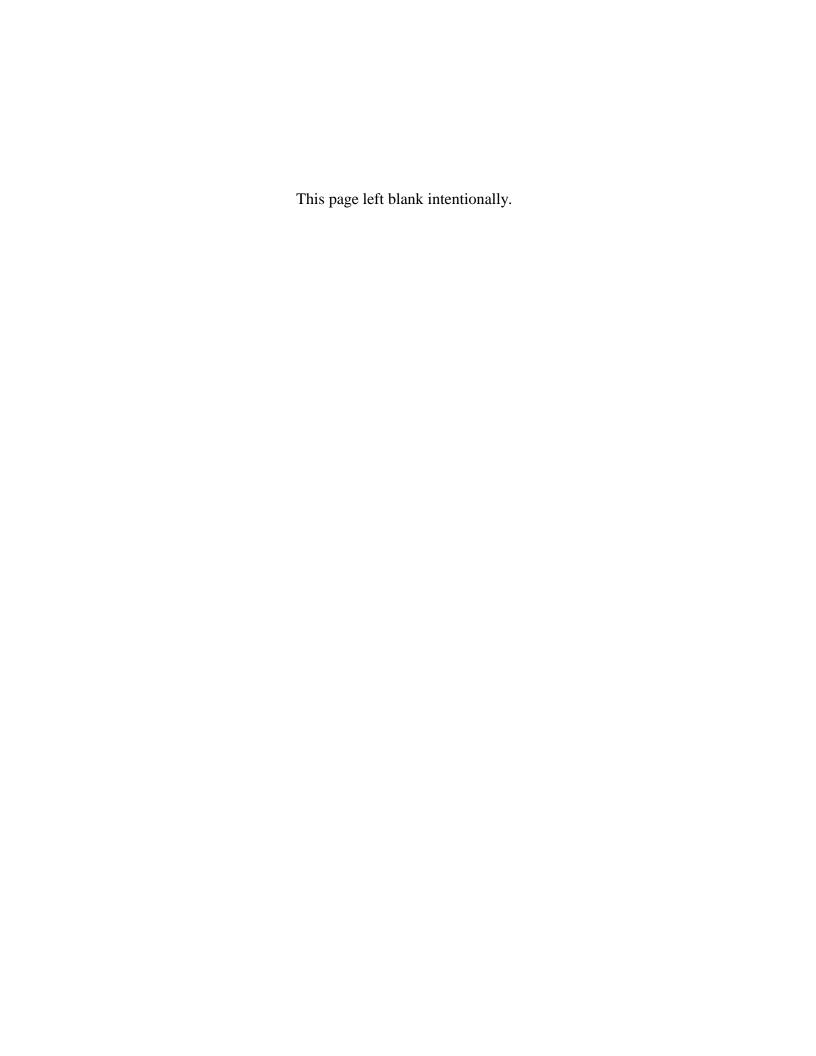
						Dist	ributions	to General Fu	nd				
			% of		% of	Dept.	% of	Dept. of Law	% of	Un-	% of	Other Depts.	% of
		State	Gen.	Judicial	Gen.	of	Gen.	Enforcement	Gen.	Claimed	Gen.	and	Gen.
Year		Treasurer	Fund	Branch	Fund	Insurance	Fund	(Liq. Law)	Fund	Property	Fund	Transfers	Fund
FY70	Actual	\$3,216.1	3.3%	\$1.8	0.0%	\$4,831.5	4.9%	\$444.2	0.5%	\$0.0	0.0%	\$2,347.0	2.4%
FY71	Actual	3,151.1	3.0%	310.5	0.3%	5,345.7	5.0%	477.3	0.5%	0.0	0.0%	1,369.6	1.3%
FY72	Actual	2,172.5	1.8%	868.1	0.7%	6,024.1	4.9%	526.0	0.4%	0.0	0.0%	2,624.6	2.1%
FY73	Actual	3,055.8	2.1%	1,056.4	0.7%	6,664.1	4.6%	530.6	0.4%	0.0	0.0%	3,215.6	2.2%
FY74	Actual	5,895.8	3.4%	1,188.1	0.7%	7,471.6	4.2%	555.0	0.3%	0.0	0.0%	1,857.6	1.1%
FY75	Actual	7,790.3	3.8%	1,141.5	0.6%	7,945.6	3.9%	573.4	0.3%	0.0	0.0%	1,762.7	0.9%
FY76	Actual	7,013.4	3.1%	1,242.0	0.5%	8,915.8	3.9%	593.0	0.3%	0.0	0.0%	2,654.3	1.2%
FY77	Actual	5,529.3	2.2%	1,268.1	0.5%	10,693.5	4.2%	624.7	0.2%	0.0	0.0%	1,612.5	0.6%
FY78	Actual	5,465.2	1.9%	1,446.6	0.5%	12,175.2	4.1%	654.4	0.2%	0.0	0.0%	2,184.2	0.7%
FY79	Actual	7,382.4	2.2%	1,618.6	0.5%	13,555.0	4.1%	670.4	0.2%	0.0	0.0%	2,027.4	0.6%
FY80	Actual	12,946.3	3.6%	1,894.8	0.5%	14,894.7	4.2%	719.6	0.2%	0.0	0.0%	2,232.4	0.6%
FY81	Actual	10,257.4	2.6%	1,850.8	0.5%	14,845.9	3.8%	918.9	0.2%	0.0	0.0%	2,412.5	0.6%
FY82	Actual	12,282.6	3.0%	2,036.1	0.5%	15,442.0	3.8%	911.5	0.2%	0.0	0.0%	2,620.1	0.6%
FY83	Actual	8,663.9	2.1%	2,109.6	0.5%	22,345.0	5.4%	939.6	0.2%	175.3	0.0%	7,534.9	1.8%
FY84	Actual	12,227.9	2.5%	2,154.9	0.4%	16,730.0	3.4%	932.2	0.2%	597.0	0.1%	2,037.9	0.4%
FY85 FY86	Actual	10,931.1 9,549.6	2.0%	2,355.3 2,544.1	0.4%	18,329.8 20,867.5	3.3% 3.7%	1,033.8 1,052.5	0.2%	1,304.9 906.7	0.2%	6,244.1 7,381.5	1.1%
	Actual		1.7%		0.4%			-	0.2%		0.2%		1.3%
FY87	Actual	7,615.7	1.2%	2,800.7	0.4%	21,257.1	3.4%	1,059.9	0.2%	866.3	0.1%	11,446.6	1.8%
FY88	Actual	10,010.0	1.5%	2,860.1	0.4%	31,182.3	4.6%	1,035.8	0.2%	997.7	0.1%	3,191.0 2	0.5%
FY89	Actual	16,178.4	2.1%	3,135.9	0.4%	26,217.5	3.4%	1,033.9	0.1%	744.9	0.1%	4,555.1	0.6%
FY90	Actual	17,552.6	2.0%	3,426.1	0.4%	25,209.2	2.9%	1,081.5	0.1%	1,155.7	0.1%	3,503.0 4	0.4%
FY91	Actual	19,387.7	2.2%	3,331.7	0.4%	28,643.7	3.2%	994.5	0.1%	1,145.4	0.1%	3,605.7 5	0.4%
FY92	Actual	11,810.0	1.2%	3,390.7	0.4%	31,944.9	3.4%	1,010.2	0.1%	1,353.3	0.1%	3,976.7 6	0.4%
FY93	Actual	10,540.0	1.0%	3,210.0	0.3%	28,810.0	2.8%	960.0	0.1%	1,335.5	0.1%	1,820.0	0.2%
FY94	Actual	10,611.2	0.9%	3,721.9	0.3%	33,193.5	2.8%	1,039.0	0.1%	1,707.9	0.1%	5,688.4 7	0.5%
FY95	Actual	15,000.0	1.2%	3,894.0	0.3%	34,934.6	2.7%	1,072.3	0.1%	2,089.2	0.2%	4,489.7 8	0.3%
FY96	Actual	18,541.4	1.4%	4,244.8	0.3%	36,126.4	2.7%	1,047.9	0.1%	1,387.1	0.1%	4,507.3	0.3%
FY97	Actual	18,243.0	1.3%	4,707.9	0.3%	40,262.5	2.9%	1,140.9	0.1%	829.4	0.1%	3,407.7 10	0.2%
FY98	Actual	17,930.0	1.2%	5,016.3	0.3%	42,846.5	2.9%	1,151.6	0.1%	1,168.0	0.1%	3,701.7 11	0.2%
FY99	Projected	17,710.0	1.1%	5,100.0	0.3%	41,670.0	2.6%	1,200.0	0.1%	500.0	0.0%	3,900.0 12	0.2%
FY00	Projected	7,810.0	0.5%	5,200.0	0.3%	42,470.0	2.6%	1,200.0	0.1%	500.0	0.0%	2,300.0	0.1%

- 1. Includes a one-time transfer totaling \$9,337,000 from the Water Pollution Control Fund.
- 2. Includes a one-time reversion of \$204,400 from the University of Idah
- $3. \ \ Includes of fsetting transfers of \$2.0 \ million \ from \ and \ to \ the \ Water Pollution \ Control Fund; \ and \$300,000 \ borrowed \ and \ repaid \ by \ the \ Lottery \ Commission$
- 4. Includes off-setting transfer of \$1,000,000 borrowed and repaid by the Lottery Commission.
- 5. Includes on-time transfer of \$125,000 from the Department of Insurance and \$200,000 from the Parks Land Trust.
- 6. Includes \$513,894 in one-time transfer from State Treasurer's interagency billing and receipts fund in FY 1992.
- 7. Transfers of: \$3,000,000 from Budget Reserve Fund; \$420,000 from Liquor Fund; and approximately \$350,000 from Department of Finance.
- 8. Includes a \$1,858,000 transfer from the Department of Finance.
- 9. Includes a \$1,517,000 transfer from the Department of Finance and a \$145,000 transfer from the Secretary of State.
- 10. Includes a \$1,117,000 transfer from the Department of Finance.
- 11. Includes a \$1,567,000 transfer from the Department of Finance.
- 12. Includes a \$1,245,700 transfer from the Department of Finance, a \$428,000 transfer from the Secretary of State, a \$1,092,300 recovery of cost allocation expensions.



Idaho's Tax Structure

Exemptions, Credits, Exclusions and Deductions



INTRODUCTION

This report is a comprehensive guide to the structure of Idaho's primary General Fund revenue sources. It provides a detailed examination of the various departures from the broadly defined *base* of the income and sales taxes. These two taxes supply well over 90% of the revenue that goes to the General Fund.

The everyday vernacular refers to these departures from the tax base as *tax breaks*. An analogous term used by fiscal analysts is *tax expenditures*. The most common forms they take in the codification of taxes are exemptions, credits, exclusions, and deductions. The end result is always the same: a tax that is defined on the basis of a broad economic concept (income, consumption, wealth, etc.) is not applied uniformly against the broad base of the tax.

The following pages provide both an inventory and an explanation of Idaho's sales and income tax expenditures. The goal is to facilitate greater understanding of these important elements of Idaho's overall fiscal structure. It is not an attempt to judge the merits of any particular tax expenditure.

The definition of a tax expenditure (for the purpose of this report) is any provision of Idaho law that excludes some portion of the tax base on a selective basis. Two illustrative examples are the sales tax exemption for prescription drugs and the income tax exclusion for interest earned on certain government-issued securities. In the first case a specific type of consumption (prescription drugs) is excused from the sales and use tax. In the second case a specific source of income (interest from government-issued securities) is excused from the income tax.

Limiting the definition of tax expenditures to Idaho tax provisions is arbitrary and is primarily done to limit the scope of this publication. Indeed, many federal income tax provisions have the effect of granting large tax expenditures within Idaho. The mortgage interest deduction is a good example. Although nothing technically prevents Idaho from treating mortgage interest different than the federal tax law, the practical ramifications prevent Idaho from making large deviations from federal tax law. Consequently, this report ignores tax expenditures that originate in federal tax law. It does, however, look at Idaho departures from the federal tax structure and treats them as Idaho-specific tax expenditures.

Some apparent tax breaks are not really tax expenditures, because their impacts lie outside of the basic definition of the tax base. The sales tax "exemption" for goods purchased for resale is one such case. This is because the sales tax is intended to apply to retail sales, and the "exemption" for goods purchased for resale is the statutory mechanism used to differentiate between retail and wholesale trade. The income tax rate brackets are another example of a tax policy that impacts the amount of revenue produced from the fundamental tax base, but are not considered a selective "exemption" for purposes of this report. That's because all income that falls into a particular bracket is taxed at that bracket's rate, regardless of the overall income (or any other characteristic) of the taxpayer.

This report includes estimates of the cost of each tax expenditure. This is an estimate of how much tax payment is being avoided by the beneficiaries of the tax expenditure. It is <u>not</u> an estimate of the revenue that would be raised by eliminating the tax expenditure. Several additional factors need to be considered when producing a revenue estimate associated with any particular tax law change.

In many cases, especially those involving substantial structural changes, tax law changes could reasonably be expected to change the economic behavior of taxpayers. The fiscal estimates included in this report are based on current economic behavior, meaning they reflect an environment that includes the effect of the tax expenditure. It should be noted that in many cases even the fiscal estimates based on the actual tax structure are difficult to produce. Attempting to factor in behavioral adjustments can add a substantial amount of complexity to the fiscal analysis.

Another factor that is not reflected in these fiscal estimates is the amount of tax gap. The tax gap is the difference between the theoretical amount of revenue associated with eliminating a particular tax expenditure and the actual revenue that would be realized. The probable size of the "tax gap" is impacted by a number of variables, including the manner in which a tax exemption is removed and the amount of resources that are allocated to compliance and collection efforts. Clearly these are variables that are "unknowable" prior to any specific proposal for law changes.

Tax expenditures are placed in the law for a variety of reasons. The primary reasons are to encourage a particular behavior on the part of taxpayers, to provide fiscal relief to particular taxpayers, or to simplify the administration of the tax laws.

In many cases, tax expenditures have an alternative, appropriation-based method for accomplishing the policy objective behind the tax expenditure. Often, the appropriation-based alternative will have significant differences (relative to the tax expenditure) in terms of overhead cost and public policy ramifications.

Overhead cost comparisons associated with tax expenditures vs. appropriations depend on the specific circumstances of the particular tax expenditure/appropriation alternative being considered, and the "value" of both is difficult to examine.

This is particularly the case with sales and income tax expenditures that are made in the context of confidential tax returns. This means that the beneficiaries are only known to the tax authorities. The secrecy of sales and income tax information is protected under felony penalty provisions. The confidentiality associated with tax expenditures seriously inhibits close scrutiny, and makes it difficult or impossible to establish the "value" (as opposed to the cost) of the tax expenditure.

Tax expenditures "cost" the public in the form of lost revenue that could otherwise be used to fund appropriations or reduce tax rates. However, the estimates of the amount of lost revenue contained in this report do not take into consideration the overhead that would be needed to collect the lost revenue. That overhead can vary from very large, as in the case of tax expenditures that are for the purpose of simplifying tax administration, to negative, as in the case of a tax expenditure that in itself increases the administrative costs associated with the particular tax.

INDIVIDUAL AND CORPORATE INCOME TAX

The Idaho income tax is a tax levied on individuals and corporations based on their income during a 12-month tax period. In the case of businesses (proprietorships, partnerships, and corporations) the concept of income is not gross receipts, but rather is most closely associated with the economic concept of profit.

The rate of Idaho's income tax is a flat 8% on corporate income and a maximum of 8.2% on individual income. The individual income tax rate is graduated on taxable income below \$40,000 for married taxpayers and below \$20,000 for single taxpayers. Rates on individuals vary from a low of 2% (on incomes below \$2,000 and \$1,000 for married and single taxpayers, respectively) to the top rate of 8.2%.

The tax expenditures granted under the income tax can be classified into two principle categories: exemptions based on the source of income (exclusions); and exemptions based on the use of income (deductions and credits). Source exemptions include interest from government securities, capital gains, and social security payments. Use exemptions include donations to educational institutions and purchases of equipment used in business enterprises. Notable features of the income tax structure that are within Idaho's policy discretion but are <u>not</u> considered tax expenditures include: the rate brackets, personal exemptions, and standard deductions. These features of the tax structure have the effect of reducing revenues, but they are not selective with regard to whom they apply.

A special note concerning tax expenditure definitions is relevant in the case of the income tax. Since the foundation of the Idaho income tax is federal adjusted gross income, there are a number of federal tax expenditures that are adopted in Idaho by default. These federal tax expenditures could technically be considered Idaho tax expenditures, since Idaho adopts them by law. However, this report takes the approach that federal tax expenditures related to the definition of taxable income are **not** Idaho tax expenditures. Thus, the federal tax expenditure associated with the mortgage interest deduction is not considered an Idaho tax expenditure. Similarly, Idaho's exclusion of social security income from the income tax base is treated as an Idaho tax expenditure only to the extent that it exceeds the partial federal exclusion for social security income.

The principal Idaho income tax expenditures relating to uses of income are:

Investment Tax Credit
Other States Tax Credit
Elderly Dependent Credit
Youth and Rehabilitation Credit
Schools, Libraries, and Museums Credit
Grocery Credit
Technological Equipment Deduction
Alcohol/Gasohol Production Deduction
Alternative Energy Device Deduction
Insulation Deduction
Workers' Compensation Premium Deduction
Child Care Deduction

Personal Care Services Deduction - Repealed
Medical Assistance Account Deduction - Repealed
Elderly and Development Disability Deduction
Adoption Expense Deduction
Medical Savings Account Deduction
Conservation and Weatherization Deduction - Repealed
Riparian Land Improvements

The principal Idaho income tax expenditures relating to sources of income are:

Capital Gains Exclusion
Government Interest Exclusion
Social Security Exclusion
Railroad Retirement Exclusion
Retirement Benefit Exclusion
Idaho Lottery Winnings Exclusion
Indian Earnings on Reservation Exclusion
World War II Reparations Exclusion

SALES AND USE TAX

The Idaho sales tax is a transaction tax levied on the purchase or use of goods and services by consumers, where consumers may be either individuals or businesses. Transactions involving purchases by businesses are included in the sales tax base if the goods or services are consumed by the purchasing business. Transactions involving purchases of goods or services for resale (including components or parts used in manufactured goods) are not considered a part of the sales tax base. The legal incidence of the Idaho sales tax is on the purchaser. Sales taxes are distant relatives of value-added taxes.

The rate of Idaho's sales tax is a flat 5%. No partial exemptions exist (that is, nothing is taxed at a rate below 5% but above 0%).

Consumption, as an economic concept, can be divided into consumption of goods and consumption of services. The purchase of a hotel room is classified as a service, since it is only the right to use the hotel room for a limited time that it is being purchased. Purchase of a tent is classified as a good since the buyer becomes the owner of a tangible item. An interesting characteristic of Idaho's sales tax is that unless specifically exempted, purchase of a tangible good is a taxable event. On the other hand, the purchase of a service is generally not taxable unless the service is specifically included in the list of taxable transactions. Three major service categories that are completely taxable (and therefore are excluded from this compilation of tax expenditures) are "Hotels and Other Lodging Places" (SIC Major Group 70), "Amusement and Recreation Services" (SIC Major Group 79), and "Motion Pictures" (SIC Major Group 78).

The tax expenditures granted under the sales tax can be classified in three principal categories: exemptions based on the *use* of the good or service, exemptions based on the *specific good or service* being purchased, and exemptions based on the *individual or entity* making the purchase or sale.

Principal Idaho sales tax expenditures relating to specific uses are:

Production Exemption - Equipment Production Exemption - Supplies Irrigation Equipment and Supplies Pollution Control Equipment **Broadcast Equipment and Supplies** Publishing Equipment and Supplies Commercial Aircraft Railroad Rolling Stock and Remanufacturing **Interstate Trucks Out-of-State Contracts** Trade-in Value Sales of Businesses or Business Assets Food Stamps/WIC Motor Vehicles Used Outside of Idaho Common Carrier Purchases and Out-of-State Sales Donations of Real Property to Idaho Government

Incidental Sales of Tangible Personal Property Lodging, Eating, and Drinking Places School Lunches and Senior Citizen Meals Drivers Education Automobiles Ski Lifts and Snowgrooming Equipment

Principal Idaho sales tax expenditures relating to specific goods and services are:

Goods Not Taxed

Motor Fuels

Heating Materials

Utility Sales

Used Mobile Homes

Vending Machines and Amusement Devices

Prescriptions and Durable Medical Equipment

Funeral Caskets

Containers

Nonprofit Literature

Official Documents

Precious Metal Bullion

New Manufactured Homes or Modular Buildings

Telecommunications Equipment

Services Not Taxed

Construction

Agricultural and Industrial Services

Transportation Services

Communications

Repairs

Professional Services

Business Services

Personal Services

Health and Medical Services

Social Services

Educational Services

Lottery Tickets and Pari-Mutuel Betting

Media Measurement Services

Miscellaneous Services

Principal Idaho sales tax expenditures relating to specific entities are:

Educational Institution Purchases Hospital Purchases

Health Entity Purchases

Canal Company Purchases

Forest Protective Association Purchases

Food Bank Purchases

Nonsale Clothier Purchases

Centers for Independent Living

State of Idaho and Local Government Purchases

Ronald McDonald House Rooms

INEEL R&D Purchases

Motor Vehicle Purchases by Family Members

Sales by 4-H and FFA Clubs at Fairs

Sales by Non-Retailers (Yard and Occasional Sales)

Sales by Indian Tribes on Reservations

Sales of Meals by Churches to Members

Sales by Outfitters and Guides

Sales Through Vending Machines

Auto Manufacturer Rebates

Incidental Sales of Churches

Federal Excise Tax Imposed at Retail Level

Federal Constitutional Prohibitions

Federal and State Statutory Prohibitions

Idaho's Tax Structure Fiscal Summary \$\ Thousands

<u>1.00 l</u>	Income Tax Expenditure	<u>CY 1995</u>	<u>CY 1996</u>	<u>CY 1997</u>	<u>CY 1998</u>	<u>CY 1999</u>	CY 2000
Uses	s of Income Not Taxed						
1.01	Investment Tax Credit	\$47,097	\$42,951	\$46,676	\$52,128	\$54,307	\$56,414
1.02	Other States Tax Credit	\$20,337	\$23,132	\$24,367	\$25,627	\$26,756	\$28,126
1.03	Elderly Dependent Credit	\$254	\$267	\$272	\$276	\$280	\$285
1.04	Youth & Rehabilitation Credit	\$2,769	\$3,228	\$3,430	\$3,532	\$3,561	\$3,587
1.05	Schools, Libraries, and Museums Credit	\$2,019	\$2,095	\$2,207	\$2,319	\$2,421	\$2,545
1.06	Grocery Credit	\$17,524	\$17,137	\$17,487	\$17,803	\$18,125	\$18,459
1.07	Recycling Equipment Credit	\$41	\$14	\$38	\$38	\$38	\$38
1.08	Technological Equipment Deduction	\$42	\$44	\$46	\$48	\$50	\$52
1.09	Alcohol/Gasohol Production Deduction	\$3	\$3	\$3	\$3	\$3	\$3
1.10	Alternative Energy Devices Deduction	\$302	\$288	\$303	\$319	\$333	\$350
1.11	Insulation Deduction	\$435	\$446	\$470	\$494	\$516	\$542
1.12	Workers' Comp. Premium Deduction	\$400	\$400	\$400	\$400	\$400	\$400
1.13	Child Care Deduction	\$2,894	\$3,000	\$3,048	\$3,085	\$3,124	\$3,167
1.14	Personal Care Services Deduction	\$1	\$1	\$1	Repealed	Repealed	Repealed
1.15	Medical Assistance Account Deduction	\$1	\$1	\$1	Repealed	Repealed	Repealed
1.16	Elderly & Developmentally Dis. Deduction	\$9	\$9	\$9	\$9	\$9	\$9
1.17	Adoption Expense Deduction	\$36	\$39	\$37	\$37	\$37	\$37
1.18	Medical Savings Account Deduction	\$223	\$610	\$642	\$675	\$704	\$740
1.19	Conservation and Weatherization Deduction	\$0	\$0	\$0	Repealed	Repealed	Repealed
1.20	Riparian Land Improvements	\$0	\$0	\$0	\$0	\$250	\$250
	rces of Incomes Not Taxed						
1.21	Capital Gains Exclusion	\$7,994	\$8,812	\$9,282	\$10,693	\$11,169	\$11,739
1.22	Government Interest Exclusion	\$6,120	\$6,844	\$7,273	\$7,480	\$7,541	\$7,595
1.23	Social Security Exclusion	\$12,018	\$13,714	\$14,349	\$14,943	\$15,776	\$16,751
1.24	Railroad Retirement Exclusion						
1.25	Retirement Benefit Exclusion	\$2,837	\$3,090	\$3,233	\$3,367	\$3,555	\$3,775
1.26	Idaho Lottery Winnings Exclusion	\$3,539	\$3,978	\$4,180	\$3,902	\$4,090	\$4,289
1.27	Indian Earnings on Reservation Exclusion	\$264	\$281	\$295	\$310	\$324	\$341
1.28	World War II Reparations Exclusion	\$0	\$0	\$0	\$0	\$0	\$0
2.00 \$	Sales Tax Expenditures	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Snor	cific Uses Not Taxed						
	Production Exemption - Equipment	\$54,961	\$59,827	\$66,808	\$71,424	\$73,947	\$77,364
2.02	Production Exemption - Supplies	\$41,606	\$45,289	\$50,573	\$54,068	\$55,978	\$58,565
2.03	Irrigation Equipment & Supplies	\$2,200	\$2,256	\$2,312	\$2,370	\$2,429	\$2,490
2.04	Pollution Control Equipment	\$2,428	\$2,676	\$2,969	\$3,096	\$3,181	\$3,291
2.05	Broadcast Equipment & Supplies	\$1,150	\$1,252	\$1,398	\$1,495	\$1,547	\$1,619
2.06	Publishing Equipment & Supplies	\$74	\$80	\$90	\$96	\$99	\$104
2.07	Commercial Aircraft	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
2.08	Railroad Rolling Stock & Remanufacturing	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125	\$2,125
2.09	Interstate Trucks	\$4,232	\$5,331	\$7,162	\$8,977	\$11,698	\$15,589
2.10	Out-of-State Contracts	\$1,917	\$2,086	\$2,330	\$2,491	\$2,579	\$2,698
2.11	Trade-in Value	\$15,050	\$15,181	\$15,944	\$15,965	\$16,386	\$16,836
2.12	Sale or Lease of Businesses or Business Assets	\$910	\$990	\$1,106	\$1,182	\$1,224	\$1,280
2.13	Food Stamps/WIC	\$3,565	\$3,697	\$3,822	\$3,978	\$4,112	\$4,245
2.14	Motor Vehicles Used Outside of Idaho	\$8,407	\$8,479	\$8,906	\$8,918	\$9,152	\$9,404

2.00 \$	Sales Tax Expenditures	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
2.15	Common Carrier Purch. & Out-of-State Sales	NA	NA	NA	NA	NA	NA
2.16	Donations of Real Property to Idaho Gov't	\$3	\$3	\$3	\$3	\$3	\$3
2.17	Incidental Sales of Tangible Personal Property	\$10	\$10	\$10	\$10	\$10	\$10
2.18	Lodging, Eating, & Drinking Places	\$33	\$35	\$36	\$37	\$39	\$40
2.19	School Lunches & Senior Citizen Meals	\$1,652	\$1,745	\$1,815	\$1,885	\$1,965	\$2,050
2.20	Drivers Education Automobiles	\$31	\$32	\$32	\$32	\$32	\$32
2.21	Ski Lifts and Snowgrooming Equipment	\$500	\$500	\$500	\$500	\$500	\$500
Goo	ds Not Taxed						
2.22	Motor Fuels	\$34,179	\$36,369	\$34,433	\$32,864	\$34,321	\$36,111
2.23	Heating Materials	\$2,429	\$2,444	\$2,135	\$2,034	\$2,041	\$2,073
2.24	Utility Sales	\$42,990	\$43,946	\$44,771	\$45,574	\$46,407	\$47,265
2.25	Used Mobile Homes	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300
2.26	Vending Machines & Amusement Devices	\$0	\$0	\$0	\$0	\$0	\$0
2.27	Prescriptions & Durable Medical Equipment	\$9,108	\$9,484	\$9,957	\$11,087	\$11,783	\$12,523
2.28	Funeral Caskets	\$504	\$533	\$567	\$602	\$632	\$665
2.29	Containers	\$15	\$16	\$17	\$17	\$18	\$19
2.30	Nonprofit Literature	\$73	\$75	\$77	\$78	\$79	\$81
2.31	Official Documents	\$41	\$42	\$43	\$43	\$44	\$45
2.32	Precious Metal Bullion	\$465	\$465	\$465	\$465	\$465	\$465
2.33	New Manufactured Homes or Modular Buildings	\$1,160	\$1,182	\$1,223	\$1,271	\$1,318	\$1,364
2.34	Telecommunication Equipment	\$0	\$340	\$374	\$411	\$453	\$498
Serv	rices Not Taxed						
2.35	Construction	\$74,118	\$79,014	\$82,570	\$80,674	\$81,644	\$83,544
2.36	Agricultural & Industrial Services	\$3,148	\$3,290	\$3,432	\$3,571	\$3,737	\$3,914
2.37	Transportation Services	\$9,636	\$10,532	\$11,241	\$11,721	\$12,384	\$13,027
2.38	Communications	\$23,135	\$22,769	\$23,290	\$23,804	\$24,316	\$24,848
2.39	Repairs	\$19,033	\$20,136	\$21,424	\$22,735	\$23,887	\$25,128
2.40	Professional Services	\$73,390	\$77,643	\$82,609	\$87,624	\$92,067	\$96,853
2.41	Business Services	\$20,913	\$22,124	\$23,539	\$24,980	\$26,246	\$27,610
2.42	Personal Services	\$6,268	\$6,631	\$7,055	\$7,487	\$7,867	\$8,275
2.43	Health & Medical Services	\$115,086	\$119,835	\$125,808	\$132,513	\$140,829	\$149,668
2.44	Social Services	\$32,917	\$34,824	\$37,052	\$39,319	\$41,312	\$43,459
2.45	Educational Services	\$8,968	\$9,488	\$10,095	\$10,713	\$11,256	\$11,841
2.46	Lottery Tickets & Pari-Mutuel Betting	\$7,269	\$7,316	\$7,115	\$7,441	\$7,787	\$7,971
2.47	Media Measurement Services	\$0	\$0	\$0	\$40	\$41	\$42
2.48	Miscellaneous Services	\$8,217	\$8,597	\$9,023	\$9,455	\$9,842	\$10,257
	cific Entities Not Taxed						
2.49	Educational Institution Purchases	\$4,289	\$4,480	\$4,528	\$4,541	\$4,595	\$4,662
2.50	Hospital Purchases	\$8,648	\$9,004	\$9,453	\$9,957	\$10,582	\$11,246
2.51	Health Entity Purchases	\$75	\$79	\$84	\$88	\$92	\$96
2.52	Canal Company Purchases	\$628	\$641	\$649	\$657	\$672	\$689
25.3	Forest Protective Association Purchases	\$28	\$28	\$29	\$29	\$30	\$30
2.54	Food Bank Purchases	\$71	\$75	\$79	\$134	\$140	\$146
2.55	Nonsale Clothier Purchases	\$1	\$1	\$1	\$1	\$1	\$1
2.56	Centers for Independent Living	\$0	\$0	\$3	\$3	\$3	\$3
2.57	State of Idaho and Local Government Purchases	\$10,304	\$10,970	\$11,405	\$11,780	\$12,223	\$12,698
2.58	Ronald McDonald House Rooms	\$0	\$1	\$1	\$1	\$1	\$1
2.59	INEEL R&D Purchases	\$2,344	\$2,574	\$2,839	\$2,977	\$3,066	\$3,195
2.60	Motor Vehicle Purchases by Family Members	\$986	\$995	\$1,045	\$1,046	\$1,074	\$1,103
2.61	Sales by 4-H & FFA Clubs at Fairs	\$23	\$23	\$23	\$23	\$23	\$23
2.62	Sales by Non-Retailers (Yard & Occas.	\$1,296	\$1,364	\$1,440	\$1,515	\$1,585	\$1,658

2.00 Sales Tax Expenditures		FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
	Sales)						
2.63	Sales by Indian Tribes on Reservations	\$2,130	\$2,229	\$2,308	\$2,406	\$2,501	\$2,596
2.64	Sales of Meals by Churches to Members	\$6	\$6	\$6	\$6	\$7	\$7
2.65	Sales by Outfitters & Guides	\$13	\$13	\$13	\$13	\$13	\$13
2.66	Sales Through Vending Machines	\$1,107	\$1,149	\$1,187	\$1,236	\$1,277	\$1,318
2.67	Auto Manufacturer Rebates	\$325	\$328	\$345	\$345	\$354	\$364
2.68	Incidental Sales of Churches	\$325	\$342	\$361	\$380	\$397	\$415
2.69	Federal Excise Tax Imposed at Retail Level	NA	NA	NA	NA	NA	NA
2.70	Federal Constitutional Prohibitions	NA	NA	NA	NA	NA	NA
2.71	Other Federal & State Statutory Prohibitions	NA	NA	NA	NA	NA	NA

TAX STRUCTURE DETAIL

Specific Idaho tax expenditures are detailed in the sections below. Each section contains the expenditure's *Idaho Code* reference, a brief description of its features, and its significant legislative and judicial history.

INDIVIDUAL AND CORPORATE INCOME TAX

Income tax expenditures fall into one of three categories: exclusions, deductions, or credits. Exclusions are sources of income that are wholly or partially exempt from taxation. Deductions are uses of income (either actual spending or proxies for actual spending) that are wholly or partially exempt from taxation. Credits are deductions from the tax itself that are expressed either as a percentage of some qualifying amount or as a lump sum. Credits may be further divided into those that are refundable, meaning that they can exceed the taxpayer's tax liability and actually lead to a refund, and those that are non-refundable, meaning that they are only usable if there is a tax liability to offset.

In general, deductions and exclusions <u>must</u> be used in the year they are incurred, with the exception of business net operating loss (NOL) carry forwards. Credits may be carried forward for limited time periods in certain cases where specifically authorized in the law.

One notable feature that applies to all income tax expenditures is their interaction with federal income tax. Unlike the sales tax, the Idaho income tax is deductible from federal income taxes. This applies to all corporate taxpayers and to individual taxpayers who itemize their deductions. This means that the "benefit" of an Idaho income tax expenditure is split between Idaho taxpayers and the federal treasury. The terms of the split depend on the marginal federal tax rate of the taxpayer. For a taxpayer in the 36% federal bracket, the benefit of each dollar of Idaho tax expenditure is split \$.64 to the taxpayer, \$.36 to the federal treasury. This feature of the income tax is particularly significant in assessing the cost effectiveness of an Idaho tax expenditure as an incentive for some particular behavior.

1.01 Investment Tax Credit Idaho Code 63-3029B

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Description: Idaho's investment tax credit (ITC) is provided to businesses (proprietorships, partnerships, and corporations) that purchase qualifying property for use in their business. The credit amount is 3% of the qualified investment in depreciable property and is not refundable. The credit taken in a given tax year is limited to no more than 45% of the taxpayer's tax liability as calculated before considering the credit. Credits not used may be carried forward up to seven years from the year of qualifying property purchase. The definition of qualified investment is tied to the old federal ITC (repealed in the Tax Reform Act of 1986), with the exceptions that: a) the equipment must have Idaho situs; and b) motor vehicles under 8,000 pounds do not qualify. Mobile property that is only partially used in Idaho is allowed ITC in proportion to its use in Idaho.

History:

Idaho's ITC was enacted in 1982. It was amended in 1987 to prevent its automatic repeal by the federal repeal of ITC in 1986. It was amended in 1992 in response to an Idaho Supreme Court case that changed the interpretation of how the credit is applied to equipment that is used both inside and outside Idaho. It was amended in 1994 to

make technical changes relating to unitary corporations. It was amended in 1995 to extend the carryover period from five to seven years, reduce the portion of tax liability that could be offset from 50% to 45%, and eliminated a restriction on replacement property.

1.02 Other States Tax Credit Idaho Code 63-3029

Description: The credit for taxes paid to other states is available to Idaho resident and part-year resident taxpayers who must pay income tax to another state or territory (or political subdivision thereof) on income that is also taxed by Idaho. The amount of credit is the lesser of the actual tax paid to the other state or territory, or the portion of Idaho tax attributed to the double-taxed income. The Idaho credit is not allowed if the other

state or territory provides a credit for taxes paid to Idaho.

History: Initially enacted in 1939 along with the Idaho Income Tax Act. Amended in 1996 to add corporate income, franchise, or excise taxes paid by a subchapter S corporation.

1.03 Elderly Dependent Credit *Idaho Code* 63-3025D

Description: This is a refundable credit provided to a resident taxpayer who maintains a household for a family member(s), where that family member is over 65 years of age or developmentally disabled and the taxpayer provides over one-half of the family member's support. The amount of credit is \$100 for each such family member, with no more than \$300 available to the taxpayer in any single year. This credit is allowed in lieu of the elderly and development disability deduction allowed under *Idaho Code*, Section 63-3022E (see item 1.16).

History: Enacted in 1981. Amended in 1994 to add developmentally disabled persons to the credit.

1.04 Youth and Rehabilitation Credit Idaho Code 63-3029C

Description: This is a credit provided to taxpayers who make charitable contributions to the Anchor House, the North Idaho Children's Home, the Idaho Youth Ranch, the Children's Home Society of Idaho, Inc., a center for independent living located within the State of Idaho, or to a non-profit rehabilitation facility that is located in Idaho and accredited by the Commission on Accreditation of Rehabilitation Facilities or their foundations. The credit is calculated as 50% of the contribution. For individual taxpayers the credit is limited to the lesser of \$100 or 20% of the taxpayer's income tax liability. For corporations the credit is limited to the lesser of \$500 or 10% of the taxpayer's income tax liability. There is no carry over provision.

History: The credit was enacted in 1982. The Anchor House was added in 1986. The Children's Home Society and centers for independent living were added in 1998.

1.05 Schools, Libraries, and Museums Credit Idaho Code 63-3029A

Description: A credit is allowed for charitable contributions to Idaho public and private nonprofit schools (elementary, secondary, and higher education), their foundations, trusts, or associations; to Idaho Public Libraries and Library Districts, or their foundations; to Idaho Education Public Broadcast foundations; to the Idaho State Historical Society or its foundation; to the Idaho State Library; or to non-profit public or private

museums located within Idaho. The credit is 50% of the contribution. In the case of individuals it is limited to 20% of the taxpayer's income tax liability or \$50, whichever is less. In the case of corporations, the credit is limited to 10% of the tax liability or \$500, whichever is less.

History:

Originally enacted in 1976, the school credit applied only to private nonprofit secondary or higher education institutions. Elementary schools were added in 1977. Public institutions of higher education were added in 1978. All public schools and public libraries were added in 1984. The Idaho Public Broadcast System was added in 1986. Foundations of the qualifying institutions were added in 1987. The Idaho Historical Society was added in 1992. Non-profit museums were added in 1994. The Idaho State Library was added in 1998.

1.06 Grocery Credit Idaho Code 63-3024A

Description: This credit is available to every Idaho resident (or part-year resident) who appears as a personal exemption on an Idaho income tax return. It is not available to Idaho residents who do not have sufficient income to meet Idaho's income tax filing requirement unless they are over 62 years of age, are blind, or are a disabled American veteran. The credit amount is \$15 for individuals under 65 years of age, \$30 for individuals 65 years of age or older. Part-year residents are entitled to a proportionate credit reflecting the portion of the year they were domiciled in Idaho. There are no carry over provisions associated with the grocery credit.

History:

The grocery credit was originally enacted in 1965. It was amended in 1972 to make the credit refundable for residents over 65 years of age. It was amended in 1975 to make it refundable for resident taxpayers of all ages who meet the filing requirements. It is not refundable to non-residents. The grocery credit was amended in 1978 to raise the credit for individuals 65 years of age and older from \$20 to \$30. It was amended in 1983 to add statute of limitation to the credit. It was amended in 1996 to restrict the credit to residents.

1.07 Recycling Equipment Credit *Idaho Code* 63-3029D

Description: This credit is for 20% of the cost of equipment used in manufacturing products that consist of at least 90% post-consumer waste. The credit is limited to no more than \$30,000 in a single tax year, and unused portions may be carried forward up to seven years. It is non-refundable.

History: This credit was enacted in 1994.

1.08 Technological Equipment Deduction *Idaho Code* 63-3022J

Description: A deduction from taxable income is allowed to individuals and corporations for the fair-market value of computers and scientific equipment (and computer software) that are donated to Idaho public schools, public libraries, or public and private colleges and universities. The equipment may not be over five years old at the time of donation, and the donee must issue a written statement accepting the donation. The deduction cannot reduce taxable income to less than zero.

History: This deduction was enacted for schools in 1984 as 63-3025B. Libraries were added in

1985. Colleges and universities were added in 1995. The section was moved to 63-

3022J in 1995.

1.09 Alcohol/Gasohol Production Deduction *Idaho Code* 63-3022(m)

Description: This deduction from Idaho taxable income is for the amount of tax credit claimed for

alcohol (ethanol) fuel production under the federal income tax. For federal income tax

purposes, gross income includes an amount equal to the federal alcohol fuel credit.

History: Enacted in 1981.

1.10 Alternative Energy Devices Deduction *Idaho Code* 63-3022C

Description: The Alternative Energy Device Deduction allows a deduction for the cost of

acquiring, constructing, and/or installing wood, pellet, solar, wind, geothermal energy, or natural gas/propane devices in the taxpayer's residence. The deduction is limited to 40% of the cost in the first year and 20% of the cost in the next three years. No single year's deduction may exceed \$5,000. A taxpayer who buys a residence may claim any unused deduction associated with that residence subject to the restrictions noted

above.

History: Enacted in 1976. Amended in 1994 to add natural gas and propane heating units, and

to require that replaced wood burning stoves be surrendered to the Idaho Division of

Environmental Quality.

1.11 Insulation Deduction Idaho Code 63-3022B

Description: This deduction is for the cost of insulation installed in buildings that "existed" as of

January 1, 1976 and served as a residence of the taxpayer. A building "existed" if it was already built, under construction, or subject to an outstanding building permit.

The insulation cannot be replacement for existing insulation.

History: Enacted in 1976.

1.12 Workers' Compensation Premium Deduction *Idaho Code* 63-3022(p)

Description: This deduction is allowed to self-employed individuals for the cost of workers'

compensation insurance that has not already been deducted in arriving at taxable

income.

History: Enacted in 1990.

1.13 Child Care Deduction *Idaho Code* 63-3022D

Description: The Child Care Deduction allows individual taxpayers to deduct childcare expenses

which qualify for purposes of computing the federal child care credit. The maximum deduction allowed is \$2,400 for one qualifying child and \$4,800 for two or more

qualifying children.

History: This deduction was enacted in 1977 in response to the federal switch from a deduction

to a credit.

1.14 Personal Care Services Deduction *Idaho Code* 63-3022(1)

Description: A deduction is allowed for non-reimbursed personal care services (as defined in

Chapter 56, Title 39, *Idaho Code*) that are provided for or to an immediate member of the taxpayer's family. The services must be provided in either the taxpayer's home or

the cared-for person's home. The deduction is limited to a maximum of \$1,000.

History: Enacted in 1981. Repealed in 1998.

1.15 Medical Assistance Account Deduction Idaho Code 63-3022(1)

Description: A deduction is allowed for contributions that are made to the State of Idaho's Medical

Assistance Account so long as those contributions were not previously subtracted in

arriving at taxable income.

History: Enacted in 1981. Repealed in 1998.

1.16 Elderly and Development Disability Deduction *Idaho Code* 63-3022E

Description: This is a deduction from taxable income of \$1,000 for each eligible member of a

household that is maintained by the taxpayer. The eligible members must be either 65 years of age or older, or developmentally disabled. The maximum amount of the

deduction that the taxpayer can claim in any one tax year is \$3,000.

History: This deduction was enacted in 1981. Amended in 1984 to add developmentally

disabled persons to the qualifying dependents. Amended in 1994 to allow the

deduction on the developmentally disabled person's own return.

1.17 Adoption Expense Deduction *Idaho Code* 63-3022I

Description: This deduction is for up to \$3,000 of actual legal fees and medical costs incurred in an

adoption.

History: This deduction was enacted in 1994.

1.18 Medical Savings Account Deduction *Idaho Code* 63-3022(r)-(t); 41-53xx

Description: This is a deduction for contributions to medical savings accounts. It is limited to a

maximum of \$2,000 per taxpayer (per spouse on joint returns). Other restrictions apply.

History: This deduction was originally enacted in 1994. Amended in 1995 to eliminate a restriction

to high-deductible insurance policies, eliminated administrative responsibilities from the

depository institution, and allowed taxpayer funded accounts to qualify.

1.19 Conservation and Weatherization *Idaho Code* 63-3022F

Description: This exempts from income the value of benefits obtained from conservation or

weatherization programs offered by public utilities.

History: Enacted in 1984. Repealed in 1998.

1.20 Riparian Land Improvements *Idaho Code* 63-3024B

Description: This is a 50% credit for expenditures related to improving the habitat for threatened/endangered species or riparian habitat. The credit is limited to no more than \$2,000 per person per year, and no more than \$250,000 for all such credits allowed in a single tax year.

History: Enacted in 1997, effective January 1, 1998, sunsets December 31, 2002.

1.21 Capital Gains Exclusion Idaho Code 63-3022H

Description: This exclusion is allowed for 60% of the gain from the sale of certain property. To qualify for this exclusion the property must have had an Idaho situs at the time of sale, and is limited to real property held for at least eighteen months; tangible personal property that was used in manufacturing, mining, agriculture, wholesaling, or research and development and held for twelve months or longer; cattle or horses held for twenty-four months or longer; other breeding livestock held twelve months or longer; or timber held for over twenty-four months or longer.

History: Enacted in 1987. Amended in 1995 to add various restrictions, including a requirement that qualifying timber must be grown in Idaho, and livestock gain claimants must derive at least half of their gross income from farming or ranching operations in Idaho. Amended in 1998 to reduce the holding period for real estate from five years to eighteen months.

1.22 Government Interest Exclusion *Idaho Code* 63-3022(a);

Description: This exclusion is for the amount of interest earned on securities issued by the State of Idaho and/or local governments, and interest earned on securities issued by the federal government. The interest exclusion must be reduced by an amount that is calculated by multiplying the taxpayer's total deductible interest expense, times the ratio of the value of assets subject to the government interest exclusion, to the value of the taxpayer's assets in total.

History: This exclusion has been in effect since enactment of the income tax.

1.23 Social Security Exclusion *Idaho Code* 63-3022(o)

Description: This exclusion is for the amount of social security income that is <u>included</u> in arriving at federal adjusted gross income. No social security income is subject to Idaho's income tax.

History: This exclusion was enacted in 1984 in response to federal taxation of a portion of social security income.

1.24 Railroad Retirement Exclusion *Idaho Code* 63-3022(o)

Description: This exclusion is for the amount of railroad retirement benefits paid by the Railroad Retirement Board that are <u>included</u> in federal adjusted gross income. Railroad retirement is the equivalent of social security for railroad employees.

History: Enacted in 1984.

1.25 Retirement Benefit Exclusion *Idaho Code* 63-3022A

Description: This exclusion is for retirement benefits paid by any of the following: a) U.S. civil

service; b) fireman's retirement fund of Idaho; c) policeman's retirement fund of a city within Idaho; and d) U.S. Military. The exclusion is available to either retirees or unremarried widows of retirees who are 65 years of age or older, or are disabled and 62 years of age or older. The exclusion is limited to the actual retirement payment or the maximum amount of social security benefits available, whichever is less.

History: This exclusion was enacted in 1973. It is revised annually by the Tax Commission to

adjust the maximum exclusion amount.

1.26 Idaho Lottery Winnings Exclusion *Idaho Code* 67-7439

Description: Excludes Idaho Lottery prizes of less than \$600 from taxable income.

History: Originally enacted in 1988 as a 100% exclusion. Amended in 1997 to limit the income

exclusion to prizes of less than \$600 (effective 1/1/98). Amended in 1998 to restrict

the exclusion to Idaho State Lottery winnings.

1.27 Indian Earnings on Reservation Exclusion Idaho Income Tax Regulation 30

Description: Income earned on an Indian reservation by an Indian who lives on the reservation is

not taxable by the state. To qualify for the exclusion, the Indian must be an enrolled

member of a federally recognized Indian tribe.

History: This exclusion is the result of various treaties and case law.

1.28 World War II Reparations Exclusion *Idaho Code* 63-3022G

Description: Amounts paid to individuals from the United States Civil Liberties Public Education

fund.

History: Enacted in 1989.

SALES AND USE TAX DETAIL

The following sales tax expenditures can be divided into four broad categories: 2.01 through 2.21 cover sales tax expenditures that are related to the specific uses of goods and services; 2.22 through 2.34 cover sales tax expenditures that are related to specific goods; 2.35 through 2.48 cover sales tax expenditures that are related to specific services; and 2.49 through 2.71 cover sales tax expenditures that are related to specific entities that receive exemptions on either all or part of the purchases or sales they make.

The listing for exempt services requires a special note. While a variety of classification systems are possible, the classification used here follows the structure of the Standard Industrial Classification (SIC) Manual, Executive Office of the President, Office of Management and Budget. This classification system was chosen because it is the basis for reporting a considerable variety of economic data, including that used for estimating the revenue impact associated with the various services delineated.

The SIC coding system is based on the primary activity of the establishment being coded. For example, one of the activities included under the major group heading Personal Services is BarberShops and Beauty Salons. The primary function of these establishments is the performance of haircuts and hair styling, both personal services that are presently exempt from sales tax. However, such establishments will also typically engage in retailing hair care products, transactions that are taxable. Thus, the receipts of a service establishment (such as a barbershop) can contain both exempt and taxable components. This is taken into consideration in the estimates of fiscal impact contained herein.

Another feature of the services classification used in this document relates to the classification of types of services vs. classification of industrial categories. SIC categories include major groupings for Automotive Repair and Miscellaneous Repair Services. Miscellaneous Repair Services includes repairs to televisions, stereos, appliances, tools, watches, jewelry, furniture, and most other tangible property. These two major groups cover the bulk of all "repair services." However, garment repair and shoe repair are included in the major group Personal Services. Also, computer repair is contained in the major group Business Services.

For these reasons, care must be taken in moving from this classification of services (based on SIC definitions) and any other classification of services (based on broader conceptual notions, such as repairs to tangible personal property).

2.01 Production Exemption - Equipment Idaho Code 63-3622D; 63-3622JJ

Description: This feature of the production exemption exempts equipment used to produce a taxable product. Production activities covered by this exemption are limited to manufacturing, processing, fabricating, logging, farming, and mining. The equipment must be primarily and directly used in the production activity to qualify. Also, the claiming entity must be primarily engaged in a qualifying activity for its equipment to qualify. The only exception to this is logging, where any logging equipment qualifies.

Certain specific exclusions from the production exemption exist. They include: hand tools with a unit purchase price of \$100 or less; equipment that is used in activities other than the actual production activity; equipment used in research and development; equipment used in transportation, including motor vehicles and aircraft

that are required to be licensed by any state; equipment used to make repairs; any tangible personal property that is or is intended to become a component of real property; recreational vehicles; equipment used to produce exempted gas, electricity, water, heating materials, literature, or liquor.

History:

This exemption was originally enacted in 1965 as 63-3622D. In 1987, custom farmers were added to the exemption by amending 63-3603, definition of farming. In 1989, 63-3605A was added to include contract loggers in the production exemption. In 1990, logging was moved to a separate section and expanded to include persons who are not primarily engaged in logging. It was amended in 1991 in response to the Haener decision (Idaho Supreme Court) by adopting the integrated plant doctrine, exempting equipment used to fabricate or install production equipment, and adding safety equipment.

2.02 Production Exemption - Supplies Idaho Code 63-3622D, 63-3622JJ

Description: This feature of the production exemption exempts supplies used in the process of producing a product for resale. Production activities covered by this exemption are limited to manufacturing, processing, fabricating, farming, logging, and mining. The supplies must be primarily and directly used in the production activity to qualify. Also, the claiming entity must be primarily engaged in a qualifying activity for its production

qualify.

Certain specific <u>inclusions</u> to the production exemption for supplies exist. They include: repair parts, lubricants, hydraulic oil, coolants, chemicals, catalysts, safety supplies (except for logging), and, in the dairy industry, disinfectants used to clean cow udders or to clean pipes, vats, or other milking equipment. Fuel used in logging trucks is also exempt.

supplies to qualify. The only exception to this is logging, where any logging supplies

Certain specific <u>exclusions</u> from the production exemption for supplies exist. They include: supplies that are used in activities other than the actual manufacturing, mining, farming, or logging process; supplies used in research or development; supplies used in transportation activities; repair supplies, other than parts for production equipment; any tangible personal property that is or is intended to become a component of real property; supplies used to produce exempted gas, electricity, water, heating materials, literature, or liquor.

History:

This exemption was originally enacted in 1965 as 63-3622(d); custom farmers were added to the production exemption in 1987 by amending 63-3603, definition of farming; contract loggers were added in 1989 by adding 63-3605A. In 1990, logging was moved to a separate section and expanded to allow the exemption to apply to persons who are not primarily engaged in logging. Amended in 1991 in response to the Haener decision (Idaho Supreme Court) by adopting the integrated plant doctrine, exempting supplies used to fabricate or install production equipment, and adding safety supplies (except for logging). Amended in 1996 to add all fuel used in logging trucks.

2.03 Irrigation Equipment and Supplies *Idaho Code* 63-3622W

Description: Exempts agricultural irrigation equipment and supplies, even if attached to real

property, and even if purchased by a contractor for an agricultural irrigation project.

History: Originally enacted in 1975 as 63-3622(f).

2.04 Pollution Control Equipment Idaho Code 63-3622X

Description: Exempts equipment required by regulatory agencies for air or water pollution control.

Originally enacted in 1977 as 63-3622(e). Amended in 1997 to add certain dry-History:

cleaning equipment.

2.05 Broadcast Equipment and Supplies *Idaho Code* 63-3622S

Description: Provides an exemption for equipment and supplies used to produce and broadcast

radio and television programs.

History: It was originally enacted in 1975 as 63-3622(w) and was amended in 1987 to add

aircraft to the exclusions from the exemption.

2.06 Publishing Equipment and Supplies *Idaho Code* 63-3622T

Description: Provides an exemption for equipment and supplies used to publish advertising type

newspapers that are sold or given away to the public, as long as the paper contains at least 10% editorial comment and advertising revenue is the publisher's primary source

of income.

History: This exemption was originally enacted in 1979 as 63-3622(x). The only amendment in

1987 to this exemption was to add aircraft to exclusions from the exemption.

2.07 Commercial Aircraft Idaho Code 63-3622GG

Description: Exempts aircraft purchased for commercial transport of passengers or freight.

Enacted in 1988. Amended in 1994 to add any aircraft that are for use outside Idaho. History:

2.08 Railroad Rolling Stock and Remanufacturing Idaho Code 63-3622CC; 63-3622DD

Description: Provides an exemption for railroad rolling stock and for parts, equipment, and supplies

used in the process of remanufacturing railroad rolling stock, whether or not the rolling stock is for resale. Rolling stock must have been used in interstate commerce at

least three months prior to rebuild to qualify.

History: Enacted in 1986.

2.09 Interstate Trucks *Idaho Code* 63-3622R

Description: Exempts trucks weighing over 26,000 pounds that are registered under the international registration plan (or similar prorata system) and trailers that are used in a

fleet operating in interstate commerce. Provides a recapture of sales tax on vehicles that are part of a fleet that are not used at least 10% outside Idaho during the calendar

year.

History: Enacted in 1989.

2.10 Out-of-State Contracts Idaho Code 63-3622B

Description: Exempts goods purchased by contractors to install into real property in nontaxing

states.

History: Originally enacted in 1965 as 63-3622(b), it was amended in 1993 to extend to non-

Idaho contractors.

2.11 Trade-in Value *Idaho Code* 63-3613(b)2

Description: Excludes from the taxable sales price any amounts allowed for merchandise traded in

on other like goods.

History: Enacted in 1965. Amended in 1990 to include trade-downs and barters.

2.12 Sale or Lease of Businesses or Business Assets *Idaho Code* 63-3622K(b)(2-5)

Description: Exempts sales of otherwise taxable merchandise, equipment, and supplies in cases

where the entire business operation is undergoing transfer of ownership <u>and</u> the business itself will continue its operations. It also exempts sales of businesses that amount to change in the form of business ownership. It also exempts sales and leases of capital assets between closely related businesses, but only if the sales tax has

previously been paid on the capital asset.

History: Originally enacted as 63-3622(1), it was amended in 1967 to add bulk sales and change

in form of doing business by adopting a new definition section 63-3612A in 1967. Section 63-3612A was repealed and moved to 63-3622K in 1988, then amended in 1990 to add related business transfers and sales. Amended in 1996 to add leases of

assets among family-owned businesses.

2.13 Food Stamps/WIC *Idaho Code* 63-3622EE; 63-3622FF

Description: Exempts goods purchased with WIC checks and federal food stamps.

History: Mandated in 1987 by the federal government.

2.14 Motor Vehicles Used Outside of Idaho Idaho Code 63-3622R

Description: Exempts vehicles under 26,000 pounds bought in Idaho for use outside Idaho. It also

applies to trailers. (See 2.09 Interstate Trucks for vehicles over 26,000 pounds and

trailers used in interstate commerce.)

History: Originally enacted as 63-3622(q) in 1965, it exempted vehicles sold in Idaho for use

out-of-state. It was amended in 1989 to add weight limit.

2.15 Common Carrier Purchases and Out-of-State Sales Idaho Code 63-3622Q, 63-3622P

Description: Exempts goods delivered to buyers outside Idaho (63-3622Q) and in-state purchases

by common carriers for use outside Idaho if transported out of Idaho under a bill of

lading (63-3622P).

History: Originally enacted as 63-3622(p) and 63-3622(o) in 1965.

2.16 Donations of Real Property to Idaho Government *Idaho Code* 63-3621(l)

Description: Allows an exemption from use tax for goods that are donated to either the State of Idaho or to a nonprofit listed in 63-3622O, where the goods are incorporated into real property.

History: Enacted in 1991.

2.17 Incidental Sales of Tangible Personal Property Idaho Code 63-3609

Description: Exempts goods sold incidentally when selling real property, such as a stove and refrigerator included with a home.

History: Enacted in 1985.

2.18 Lodging, Eating, and Drinking Places *Idaho Code* 63-3612

Description: Allows these industries an exemption for nondepreciable goods that are consumed by customers, such as guest hand soap provided in a motel room.

History: Enacted in 1988.

2.19 School Lunches and Senior Citizen Meals Idaho Code 63-3622J

Description: Exempts federal meals programs for youth and elderly.

History: School Lunch programs were exempted in 1965 as 63-3622(k). Amended in 1974 to

add sale of meals to aging persons under the Older Americans Act Program.

2.20 Drivers Education Automobiles *Idaho Code* 63-3622R(d)

Description: Exempts the value of motor vehicles that are temporarily donated to drivers education

programs.

History: Enacted in 1995.

2.21 Ski Lifts and Snowgrooming Equipment *Idaho Code* 63-3622Y

Description: Exempts the lifts, snowgroomers, and snowmaking equipment used by the owner of a

ski area.

History: Enacted in 1995.

2.22 Motor Fuels Idaho Code 63-3622C

Description: Exempts motor fuels subject to motor fuels tax; exempts off-road fuels loaded in

Idaho and used outside Idaho.

History: Originally enacted in 1965 as 63-3622(c). Exempted on road use of motor fuels;

amended in 1986 to exempt locomotive fuels unless loaded and burned off in Idaho.

2.23 Heating Materials *Idaho Code* 63-3622G

Description: Exempts wood, coal, gas, and petroleum products used as a source of heat for either

industrial or domestic purposes.

History: Originally enacted in 1965 as 63-3622(g).

2.24 Utility Sales *Idaho Code* 63-3622F

Description: Exempts sales of natural gas, electricity, and water delivered to consumers by means

of wires, pipes, mains, or similar systems.

History: Originally enacted in 1965 as 63-3622(f).

2.25 Used Mobile Homes *Idaho Code* 63-3622R

Description: Exempts the sale of used manufactured homes from the sales tax.

History: Original 63-3622(q) amended in 1976 to exempt used manufactured homes.

2.26 Vending Machines and Amusement Devices Idaho Code 63-3622II

Description: Exempts coin-operated machines that vend a taxable product or service.

History: Enacted in 1990.

2.27 Prescriptions and Durable Medical Equipment Idaho Code 63-3622N

Description: Exempts most prescription medical items.

History: This exemption was originally enacted as 63-3622(q) in 1967 to exempt prescription

drugs. It was amended in 1971 to add prescription oxygen and amended in 1976 to add prosthetics, limbs, wheelchairs, hearing aides, and crutches. It was amended in 1990 to add durable medical equipment, and numerous other prescription items. Amended in 1992 to clarify that dentures and other orthodontic appliances are taxable when purchased by the practitioner. Amended in 1998 to reverse the 1992 amendment, and provide that dental prostheses and other orthontic appliances, except

fillings, are exempt.

2.28 Funeral Caskets Idaho Code 63-3622U

Description: Exempts goods sold in conjunction with a funeral.

History: Originally enacted in 1977 as 63-3622(y).

2.29 Containers *Idaho Code* 63-3622E

Description: Exempts containers that are part of goods for sale, including returnable containers.

History: Originally enacted in 1965 as 63-3622(e).

2.30 Nonprofit Literature *Idaho Code* 63-3622I

Description: Exempts literature published and sold by 501(c)(3) nonprofit organizations.

History: Originally enacted in 1965 as 63-3622(j), exempting only religious literature.

Amended in 1989 to include literature of all 50l(c)(3) nonprofit organizations in

response to the U.S. Supreme Court ruling in Texas Monthly vs. Bullock.

2.31 Official Documents Idaho Code 63-3622AA

Description: Exempts sales of documents when the fee for the document is set by *Idaho Code*

History: Originally enacted in 1984.

2.32 Precious Metal Bullion *Idaho Code* 63-3622V

Description: Exempts sales of precious metal bullion and coins.

History: Originally enacted in 1982 as 63-3622(z).

2.33 New Manufactured Homes or Modular Buildings *Idaho Code* 63-3613(c)

Description: Excludes 45% of the sales price of new manufactured homes and modular buildings

from the taxable sales price.

History: Originally exempted 60% of the sales price of mobile homes when enacted in 1965. It

was amended in 1976 to exempt 45% and add modular buildings (which were

previously treated as real property improvements and taxed on materials as built).

2.34 Telecommunications Equipment *Idaho Code* 63-3613(b), 63-3621(a)

Description: Exempts from taxation the amount of discount or price reduction that is offered as an

inducement to commence or continue telecommunications service.

History: Enacted in 1996.

2.35 Construction Idaho Code 63-3609

Description: Sales tax is paid on the cost of materials that are used in construction projects, but the

labor component is generally not taxed. Mobile and manufactured homes are taxed on 55% of the sales price [*Idaho Code* 63-3613(c)] in order to give them equivalent

treatment. SIC major groups 15, 16, and 17 are included in this category.

History: The original language of the sales tax defined a "sale" as any transaction involving the

exchange of tangible personal property for a consideration (*Idaho Code* 63-3612). In the section of the Sales Tax Act defining a retail sale it is stated that "all persons engaged in constructing, altering, repairing or improving real estate are consumers of the material used by them; all sales to or use by such persons of tangible personal property are taxable whether or not such persons intend resale of the improved

property (Idaho Code 63-3609)."

2.36 Agricultural and Industrial Services

Description: This category of services includes agricultural soil preparation, planting, cultivating,

and harvesting; veterinary services; pet boarding and grooming; farm management; lawn and garden services; forestry service; and mining services. SIC major groups 01

through 14 are included in this category.

History: Originally excluded from definition of sales tax base.

2.37 Transportation Services *Idaho Code* 63-3613(b)7

Description: Most charges for transportation of freight and passengers are exempt from the sales tax (*Idaho Code* 63-3613(b)7). Exceptions (i.e., taxable transportation charges)

include transportation of manufactured homes by the dealer (Idaho Code 63-

3613(b)7), the cost of transportation prior to the sale (*Idaho Code* 63-3613(a)3), and receipts from intrastate transportation of passengers or freight by air charter [*Idaho Code* 63-3612(j)]. SIC major groups 40 through 47 are included in this category.

History:

Transportation services have generally been exempt since the enactment of sales tax in 1965. The exclusion for transportation of manufactured homes was added in 1986. Air charter transportation of freight and passengers was made taxable in 1988.

2.38 Communications

Description: Subscriptions or charges for one-way and two-way transmissions of signals containing information (sound, images, data, etc.) are not taxed. This exemption consists mostly of local and long-distance telephone service and cable television. SIC major group 48 is included in this category.

History: Communications have been exempt since the enactment of the sales tax in 1965.

2.39 Repairs *Idaho Code* 63-3613(b)4

Description: The labor charges associated with repairing or installing tangible personal property are generally not taxable as long as they are separately stated on the bill. SIC major groups 75 and 76 are included in this category.

History: Exempt since enactment of the sales tax in 1965.

2.40 Professional Services

Description: Legal, accounting, engineering, architectural, R&D, public relations, and management services fall within this category. SIC major groups 81 and 87 are included in this category.

History: Exempt since enactment of the sales tax in 1965.

2.41 Business Services

Description: Advertising, credit agencies, building maintenance, personnel agencies, computer programming and processing, computer repair, and security agencies are some of the major elements of this category. SIC major group 73 is this category.

History: Exempt since enactment of the sales tax in 1965.

2.42 Personal Services

Description: Laundry and dry cleaning, barbers and beauticians, shoe repair, funeral services, tax return preparation, massage parlors, and escort services are among the elements of the personal services major group. SIC major group 72 is this category.

History: Exempt since enactment of the sales tax in 1965.

2.43 Health and Medical Services

Description: Doctors, dentists, hospitals, and nursing home services are the principal elements of

this category. SIC major group 80 is this category.

History: Exempt since enactment of the sales tax in 1965.

2.44 Social Services

Description: Adult and child day care, counseling, job training, residential care, and adoption

services are some of the principal elements of this category. SIC major group 83 is this

category.

History: Exempt since enactment of the sales tax in 1965.

2.45 Educational Services

Description: Elementary and secondary schools, colleges and universities, libraries, vocational

schools, driving instruction, flight schools, and modeling schools are among the

establishments covered by this category. SIC major group 82 is this category.

History: Exempt since enactment of the sales tax in 1965.

2.46 Lottery Tickets and Pari-Mutuel Betting *Idaho Code 67-7439*

Description: Exempts the sale and purchase of lottery tickets and pari-mutuel betting from the sales

tax. Also exempts from sales tax any equipment used in lottery operations.

History: Enacted in 1988.

2.47 Media Measurement Services Idaho Code 63-3622LL

Description: Exempts the sale and purchase of any television, radio, newspaper, or other media

measurement service.

History: Enacted in 1997.

2.48 Miscellaneous Services

Description: This includes all service industries not classified elsewhere. Includes freelance authors,

lecturers, radio commentators, songwriters, weather forecasters, artists, consulting scientists, inventors, actuaries, and newspaper columnist. SIC major group 89 is in this category. This category also includes SIC industry group 495, sanitary services. Sewer

and trash services are included in this industry group.

History: Exempt since enactment of the sales tax in 1965.

2.49 Educational Institution Purchases *Idaho Code* 63-3622O(1)(a)

Description: Exempts all purchases by nonprofit colleges, universities, primary and secondary schools. Excludes from exemption schools that primarily teach business, dancing, gymnastics, dramatics, music, cosmetology, writing, exercise, and "other special accomplishments."

History: This was originally enacted as 63-3622(s) in 1967 and amended in 1990 to add non-resident schools with Idaho facilities. It was amended in 1993 to add all non-resident schools not otherwise excluded.

2.50 Hospital Purchases *Idaho Code* 63-3622O(1)(a)

Description: Exempts all purchases by nonprofit hospitals that are licensed by the state for the care of ill persons. Excludes from exemption nursing homes or "similar institutions."

History: Originally enacted as 63-3622(s) in 1967.

2.51 Health Entity Purchases *Idaho Code* 63-3622O(1)(a)

Description: Exempts all purchases by certain specified "health related entities." The list consists of: the Idaho Cystic Fibrosis Foundation, Idaho Epilepsy League, Idaho Lung Association, March of Dimes, American Cancer Society, Mental Health Association, Idaho Association of Retarded Citizens, American Heart Association of Idaho, United Cerebral Palsy, Arthritis Foundation, Muscular Dystrophy Foundation, National Multiple Sclerosis Society, Rocky Mountain Kidney Association, American Diabetes Association, Easter Seals, and Idaho Special Olympics. It also includes the local or regional chapters or divisions of these entities.

History: Amended in 1980 to add first list of health related entities. Amended in 1986 and 1990 to expand the list.

2.52 Canal Company Purchases *Idaho Code* 63-3622O(1)(a)

Description: Exempts all purchases by canal companies. Canal companies are defined as nonprofit corporations whose sole purpose is operating and maintaining dams, reservoirs, canals, lateral and drainage ditches, pumps, and pumping plants.

History: Originally enacted in 1967 as 63-3622(s).

25.3 Forest Protective Association Purchases *Idaho Code* 63-3622O(1)(a)

Description: Exempts all purchases by forest protective associations. Forest protective associations are associations that detect, prevent, and suppress forest or range fires. They include only those associations that contract with the State of Idaho pursuant to Chapter 1, Title 38, *Idaho Code*

History: Enacted in 1979.

2.54 Food Bank Purchases *Idaho Code* 63-3622O(1)(b, c)

Description: Exempts all purchases by food banks or soup kitchens. Includes the Idaho Food Bank Warehouse, Inc. by specific reference, and also includes any other nonprofit corporation or association "one of whose" primary purposes is the furnishing of food or food products to others without charge.

History: Enacted in 1991. Amended in 1998 to add "growing" to the list of activities that

qualify for this exemption.

2.55 Nonsale Clothier Purchases *Idaho Code* 63-3622O(1)(d)

Description: Exempts donations or sales of clothes to nonsale clothiers. Nonsale clothiers are

defined as any nonprofit corporation or association "one of whose" primary purposes

is the furnishing of clothes to others without charge.

History: Enacted in 1992.

2.56 Centers for Independent Living *Idaho Code* 63-3622O(1)(e)

Description: Exempts sales to or purchases by centers for independent living. Centers for

independent living are defined as private, non-profit, non-residential organizations

where at least 51% of the governing board are individuals with disabilities.

History: Enacted in 1997.

2.57 State of Idaho and Local Government Purchases *Idaho Code* 63-3622O(1)(f)

Description: Exempts Idaho governmental agencies from paying sales tax on purchases.

History: Enacted in 1997; exemption was done by Tax Commission regulation from enactment

of the sales tax to 1997.

2.58 Ronald McDonald House Rooms *Idaho Code* 63-3622O(5)

Description: This exempts the renting of a place to sleep by the Ronald McDonald House.

History: Enacted in 1997.

2.59 INEEL R&D Purchases Idaho Code 63-3622BB

Description: Exempts goods used for research and development at the Idaho National Engineering

and Environmental Laboratory (INEEL).

History: It was originally enacted in 1967 and exempted all federal research and development

and nuclear fuel reprocessing under 63-3615. It was amended in 1969 to limit to INEEL only. It was recodified in 1985 as 63-3622BB and removed nuclear fuel

reprocessing from the exemption.

2.60 Motor Vehicle Purchases by Family Members *Idaho Code* 63-3622K(c)

Description: Exempts sales of motor vehicles between family members related within the second

degree of consanguinity.

History: Section 63-3612A was amended in 1980 to add the sale of motor vehicles to family

members. It was repealed and moved to 63-3622K in 1988.

2.61 Sales by 4-H and FFA Clubs at Fairs *Idaho Code* 63-3622K(b)7

Description: Exempts sales of animals by any 4-H club or FFA club held in conjunction with a fair

or the Western Idaho Spring Lamb Sale.

History: Enacted in 1979 by amending 63-3612A. Moved to 63-3622K in 1988.

2.62 Sales by Non-Retailers (Yard and Occasional Sales) *Idaho Code* 63-3622K(b)(1,6); 63-3622H

Description: Exempts sales of items by individuals who are not retailers and who are not behaving

as a retailer. Covers transactions such as occasional yard sales, occasional classified ad

sales, etc. Motor vehicle sales are specifically excluded from this exemption.

History: Originally enacted as 63-3622(j, l) in 1965.

2.63 Sales by Indian Tribes on Reservations *Idaho Code* 63-3622Z

Description: Exempts sales by Indian Tribal Enterprises from sales and use tax. This exemption allows a tribal enterprise to make sales to both Indians and non-Indians without collecting sales tax. Further, it provides that no use tax applies to the purchase even if

the non-Indian removes the goods from the reservation.

History: Originally enacted as 63-3622(aa) in 1984; exempted sales of tangible personal

property by tribes within reservation boundaries; amended in 1987 to include sales of

services and to define reservation.

2.64 Sales of Meals by Churches to Members Idaho Code 63-3622J

Description: Exempts meals sold at church functions to members of the congregation.

History: Originally enacted as 63-3622(k) in 1965.

2.65 Sales by Outfitters and Guides *Idaho Code* 63-3613(b)9

Description: Allows outfitters to exclude from the taxable amount charged to their customers the

federal fees imposed on outfitters for the right to use recreational sites.

History: Enacted in 1990. Amended in 1994 to eliminate the provision that the federal fees

must be for the purpose of managing the land or water upon which the outfitting

occurs.

2.66 Sales Through Vending Machines *Idaho Code* 63-3613(e)

Description: Allows retailers selling products through vending machines for \$1.00 or less to pay tax

on 117% of their acquisition cost of the products rather than on the retail sales price.

History: Enacted in 1977.

2.67 Auto Manufacturer Rebates Idaho Code 63-3613(b)8

Description: Allows dealers to deduct the amount of a rebate given to the buyer, by the motor

vehicle manufacturer, from the taxable sales price of the vehicle.

History: Enacted in 1990.

2.68 Incidental Sales of Churches *Idaho Code* 63-3622KK

Description: Exempts sales by churches that do not regularly compete with private enterprise.

History: Enacted in 1990.

2.69 Federal Excise Tax Imposed at Retail Level *Idaho Code* 63-3613(b)5

Description: Excludes retail level federal excise taxes from the taxable sales price.

History: Originally enacted in 1965.

2.70 Federal Constitutional Prohibitions Idaho Code 63-3622A

Description: State cannot tax goods when prohibited by the U.S. Constitution.

History: Originally enacted in 1965 as 63-3622(a).

2.71 Other Federal and State Statutory Prohibitions

Description: Exemptions granted from state sales tax by other state statutes and by federal statutes, such as the American Red Cross, Amtrak, Credit Unions, Emergency 911, Federal

Intermediate Credit Banks, Federal Land Banks, Foreign Diplomats, Idaho Health Facility Authority, Idaho Housing Authority, Idaho Life and Health Insurance Guaranty Association, Idaho Onion Commission, Idaho Potato Commission, Idaho Turnpike Authority, Idaho Wheat Commission, Jr. College Dormitory Housing

Authority, Production Credit Association, and Regional Airport Authority.

History: Varies by statute.

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63-3022(1) - Repealed	1.14	Personal Care Services Deduction
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63-3022(m)	1.09	Alcohol/Gasohol Production Deduction
63-3022(o)	1.23	Social Security Exclusion
	1.24	Railroad Retirement Exclusion
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63-3022J	1.08	Technological Equipment Deduction
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63-3622O(1)(e)	2.56	Centers for Independent Living
63-3622O(1)(f)	2.57	State of Idaho and Local Government Purchases
63-3622O(5)	2.58	Ronald McDonald House Rooms
63-3622P	2.15	Common Carrier Purchases and Out-of-State Sales
63-3622Q	2.15	Common Carrier Purchases and Out-of-State Sales
63-3622R	2.09	Interstate Trucks
	2.14	Motor Vehicles Used Outside of Idaho
	2.25	Used Mobile Homes
63-3622S	2.05	Broadcast Equipment & Supplies
63-3622T	2.06	Publishing Equipment and Supplies
63-3622U	2.28	Funeral Caskets
63-3622V	2.32	Precious Metal Bullion
63-3622W	2.03	Irrigation Equipment & Supplies
63-3622X	2.04	Pollution Control Equipment
63-3622Y	2.04	Pollution Control Equipment
63-3622Z	2.63	Sales by Indian Tribes on Reservations
67-7439	1.26	Idaho Lottery Winnings Exclusion
	2.46	Lottery Tickets and Pari-Mutuel Betting

